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MONOGRAPH No. 25–26

RECOVERY PLANS

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TEMPORARY NATIONAL ECONOMIC COMMITTEE

MONOGRAPH NO. 25

RECOVERY PLANS

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(Signed) JOSEPH C. O'MAHONEY,
Chairman, Temporary National Economic Committee.

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Hon. JOSEPH C. O'MAHONEY,
Chairman, Temporary National Economic Committee,
Washington, D. C.

MY DEAR SENATOR: During the Committee's existence several files of correspondence have been received and numerous plans offered by citizens who considered the Committee a proper body to receive their suggestions. This correspondence has been most helpful in formulating plans and outlining hearings and studies in which the Committee has engaged. Obviously, it is too voluminous for inclusion in the printed reports of the Committee, consequently, it has been deemed advisable to make a selection representative of the more comprehensive suggestions offered which could be published in the monograph series. The present volume is the result of that selection.

In Part I, Recovery Plans—An Analysis, Dr. Arthur Dahlberg, a member of the staff of the committee, has assembled and analyzed those plans which focus attention on correction of faults in the monetary mechanism as the means of achieving economic recovery and stability. He has brought to this task years of research and study of economic maladjustment. His own original works, "Jobs, Machines, and Capitalism," and "When Capitalism Goes on Strike," have been given serious attention by competent economists as a most helpful elaboration of the operations of our economy.

Part II, Planning for Abundance, represents the collaboration of four Members of Congress who introduced simultaneously, but independently, a measure to achieve that end. The bill itself is based on the extensive research and analyses of Dr. Mordecai Ezekiel, of the Department of Agriculture. In offering it to the Congress, Hon. Maury Maverick, Hon. Robert G. Allen, Hon. Thomas R. Amlie, and Hon. Jerry Voorhis considered such a fundamental reorganization of our economy an essential step toward recovery. The original bill went through several revisions, to appear finally as H. R. 7504, introduced by Congressman Jerry Voorhis. The symposium of extended remarks of these gentlemen included in this monograph offers the Committee testimony of congressional colleagues who have given serious consideration to the problems of the economy and their solution.

Part III, Employment and Economic Progress, is the work of George B. Galloway, field representative of the National Economic and Social Planning Association. It is a brief, though comprehensive, statement of the problems of mass unemployment in an unbalanced economy. It comes inevitably to the conclusion that sound social planning is essential to the solution of these problems.

Part IV, Debt and Economic Stagnation, is submitted by a businessman, Irwin S. Joseph, whose analysis of the debt structure and its influence on economic stagnation is penetrating.

Part V, Capitalistic System to Fit Present Needs, by Joseph M. Lurie, seeks to preserve the capitalistic system through a redistribution of purchasing power, using the tax instrument to achieve that end.

Part VI, A Method for Controlling Unemployment and Increasing Physical Production, by Sterne Morse, is a carefully integrated plan for Government cooperation to achieve full employment. Its ingenious and novel character offers a stimulating challenge to our thinking in this area.

Part VII, The Cleveland Plan, submitted by Sam D. Schearer, is an espousal of Government ownership of utilities and their use to expand consumption.

These several plans have been selected with the purpose of making available different types of proposals for economic reform. In certain features they overlap, but in others they are unique. Together, they afford a good cross-section of public opinion on these moot questions. It is in this spirit that they are submitted to the Committee.

Respectfully submitted.

THEODORE J. KREPS,
Economic Adviser.

OCTOBER, 1940.

PART I

RECOVERY PLANS—AN ANALYSIS

BY ARTHUR DAHLBERG

PREFACE

Among the specific duties assigned to the Temporary National Economic Committee by the "joint resolution" which created it was that of hearing and receiving evidence on the "effect of existing tax, patent, and other Government policies upon competition, price levels, unemployment, profits, and consumption." The joint resolution directed the committee to make recommendations to Congress on the subjects studied. Apparently, Congress contemplated nothing less than that the committee look into the laws and working rules of our society for the causes of depression and that it suggest remedial measures for depression. The basic problem of economic statesmanship for Congress in this period undoubtedly consists in discovering ways in which to utilize our entire labor supply while preserving civil liberties and the individualistic values of democracy. While the problem is drastically changed by the current defense program, this situation is likely to be a relatively temporary one and the longer-term economic problem of overcoming depression and unemployment is likely to continue to challenge us.

Dozens of well-known leaders of thought were consequently called and heard by the committee; hundreds of others submitted views and evidence by mail. From all sections of the country came the contributions of thoughtful men of learning and experience. These views constituted a large and varied body of opinion bearing on the problem of depression. Practically all of those well-known approaches to the recovery problem with which the American public had been made familiar through books and magazines, were presented in one form or another in the plans submitted to the committee. In addition there were presented many worth-while approaches which had never been made known to the public before. The latter plans in particular, as well as the better-known approaches, the writer was employed to analyze. This he has tried to do in an integrated manner. The committee believed that an integrated review of the many extant plans—brief as the review of each type would have to be—would be of public interest.

The interpretations made and conclusions drawn in this report naturally will not find universal agreement. They are the author's own. If they also represent the views of the committee or any member of it, that is entirely accidental. The committee entrusted the author with the task of making an analysis, and this he has done to the best of his ability. The author is of the opinion that the causes of depression are clearer than is generally believed; also that these causes lie not so much in fields which have been tediously surveyed as in fields which are just beginning to be explored. Despite the great diversity of thought reflected in current reemployment plans, a reading of them makes one feel that there has come to be a core of economic thought common to many of the plans. Ten years of Nation-wide reflection on

the problem of depression seem not to have been in vain. Recommended cures are still extremely diverse, but surprising agreement exists in the analyses which underlie them.

A remarkable change in the direction of economic thought seems to have occurred since the early years of the 1929 depression. During those early years, public attention was focused in the main on those proposals which sought to solve the problem of depression by fixing minimum wages, eliminating "unfair price competition," establishing production quotas, reducing working hours, sponsoring collective bargaining, impeding the introduction of technical improvements, and so forth. Those early proposals sought to interfere rather directly with the administrative details of industrial operation. Monetary proposals were more or less left in the background. The problems of production and distribution as such held the spotlight, at least in the popular journals. The problem of exchange—the processes which constitute it and the laws and institutions which facilitate it—received scant attention. Today, a reading of current "recovery literature" leads the writer to believe that the orientation has changed. Most of the current proposals seem to seek continuity of exchange as a primary requirement for business recovery. Much more direct attention than before seems to be given to the problem of how to maintain an adequate monetary demand.

This study was made within rather severe time-limitations during 5 months of the fall and winter of 1939 and 1940. These limitations and the pressure of other duties prevented the author from considering as many recovery plans as he would like to have surveyed. However, he feels that he has considered the more important types and those which have enlisted the largest amount of public interest.

If judged by their details, recovery plans are legion in number. There are however, only a few major types. Inasmuch as the mere matter of mass made it unfeasible to discuss the details of plans, and because the details are important only if the premises on which the plans rest are sound, the author has elected in this report to focus most of his attention on the premises underlying the various plans. And to do this, even in an abbreviated manner, precluded extensive discussion of the details of the plans themselves. Should the reader become interested in the details of any plan referred to, he may investigate it further himself. Since many of the plans mentioned herein have not been formally published but only submitted to the Temporary National Economic Committee in manuscript form, the home address of the authors of unpublished plans is given in every case.

The subject matter of this report is obviously of an electric nature. Views bearing on the causes and cures of depression tend to entangle themselves deeply in our emotions; they tend to be held tenaciously and to be sponsored vigorously. Unfortunately, the conclusions arrived at and judgments rendered herein by the author are not susceptible of rigorous "scientific proof." Relationships, facts, emotional proclivities, and cultural values necessarily enter in varying degree into the making of social judgments. And there is no calculus by which one can extract provable answers. For that reason alone, conviction regarding social action should perhaps

always be tentative. Solutions are necessarily relative to one's own changing time and culture, and social forces at any time are too numerous and dynamic to warrant fanatical conviction. Any plan meeting with public approval, therefore, should probably be introduced gradually, cautiously, a little bit at a time, rather than impetuously and sweepingly.

For more than a decade the American people have been plagued with continuous industrial stagnation on the one hand and divided counsel on the other. One of the author's major hopes is that this report may be of assistance in portraying better the basic economic problem of our time, and in synthesizing somewhat the more important plans advanced toward its solution.

ARTHUR DAHLBERG.

JULY 1940.

CHAPTER I

MAJOR TYPES OF RECOVERY PLANS AND THEIR ECONOMIC BACKGROUND

SUMMARY OF MAJOR TYPES OF RECOVERY PLANS

Although extant re-employment plans which do not look to a complete abandonment of our present economic order have a great diversity of detail, they can all be classified into a few types. They seem to fall into five convenient classifications, namely:

Those which emphasize or call for—

1. A modification of our existing monetary mechanism.
2. A modification of our existing tax mechanism.
3. A modification of our existing price mechanism.
4. A modification or extension of the structure of our business organizations.
5. A larger role for the Federal Government as the producer of goods and services.

Many plans are so comprehensive that they cover more than one of these classifications. To facilitate analysis, however, the writer has considered each plan under that particular heading which calls attention to the piece of economic mechanism that would be most vitally affected by the adoption of such plan.

Apropos of the plans as a whole, it can be said that they are unanimous in regarding our present institutions as imperfect. Until either the physical capacity of our workers or the engineering capacity of our plants comes to be the factor which limits the volume of industrial production, they feel justified in believing that it is our institutions rather than our machines which are in need of repair. Most of the proponents of plans indicate that they were moved to submit their recovery proposals by the belief that democracy is doomed to be replaced by totalitarian government unless the institutional maladjustments which make for recurrent depression are rectified. Most of them also seem to have been moved to action by the unemployment, poverty, and disparity of income distribution generated by our socio-economic system. In the main, they try to design a distribution mechanism which will divert more of the national income to wages and salaries and less to capital return, not particularly for reasons of "justice," but in order to get more income into the hands of people who will re-spend it promptly and spontaneously. They believe that those who spend income mainly for consumers' goods, which minister directly to personal needs, always tend to spend it quickly, while others tend to hold it idle when investment opportunities are unattractive.

With the exception of those few people who recommend that the Government go into business on such a wholesale scale as to change materially the nature of our economy, nearly all of the proponents explicitly or implicitly indicate that they wish to rely on a system of private ownership of the means of production, to perpetuate individual initiative, to have the state enforce contracts, and to have both the prices of goods and the distribution of income determined mainly in a competitive market rather than by the agents of government. They hope to attain legally and without violence any changes which they advocate.

A FRAMEWORK FOR THE PLANS: THE ECONOMIC MECHANISM THEY PREMISE

A review of the extant plans suggests that the proponents of all of them have in their heads a definite picture of the economic mechanism to which they relate their plans. Although they throw the spotlight by turns, as it were, on those parts of our economic machine to which their recommendations most directly pertain, they all premise a certain overall mechanism into which their suggestions fit. What is the nature of this mechanism?

It was possible to assemble the elements of this economic machine from the brief descriptions with which the writers prefaced their arguments. The composite picture derived may serve as a framework against which to evaluate the different proposals. The writer will therefore describe some major parts of the economic mechanism assumed, and at the same time will attempt to fit into this framework the important types of reemployment proposals. Space does not permit the writer to qualify fully his description of the economic mechanism which he finds at the core of the recovery proposals; the reader should bear in mind that the aim here is not so much to present a detailed blueprint of our economy, as it is to provide him with a frame of reference for the evaluation of recovery proposals. As the writer sees it then, the following is the economic machine which the proponents of recovery plans apparently believe to exist:

ROLE OF LAW, CUSTOM, AND WORKING RULES

Essentially our economic machine consists of those institutional arrangements—customs, laws, and rules—which circumscribe individual economic behavior. Through its laws and customs the community institutionalizes behavior by specifying the kind of agreements which it will initiate, tolerate, prohibit, or enforce. Some of its laws are old, others new, some date from colonial times, some from yesterday. Some meet with general approval; others have been under criticism for a hundred years. Whatever institutional arrangements happen to prevail currently, however, our over 131,000,000 people try to carry on under them an activity that is essentially cooperative. In the light of their laws—regardless of how flagrantly these laws may favor or disfavor them—workers, entrepreneurs, landowners, and money savers make agreements with one another. With a view to the production and distribution of particular goods, they make agreements not only

as to who is to do what work and where, but also as to how the claims to the product are to be divided.

Of course, most groups with special interests in common try to induce the community, which maintains the policing power, to set up rules and laws that will benefit them when making agreements with other factors in the productive process. They know that if the rules of the game read one way, the work undertaken and the reward for it will be different from what it will be if they read a second way. In a free market and under a given set of laws the distribution of income may depend largely on the efficiency and marginal productivity of the various factors of production, but if the rules and regulations are changed, then distribution will change also. Institutional arrangements, therefore, are highly important. Let us review those major arrangements of the economic machine which advocates of social change wish to modify.

PRIVATE OWNERSHIP OF LAND

Land is a "factor of production" as well as capital, labor, and entrepreneurial direction. For production must take place on a particular land site and must make use of natural resources derived from the land. Because most of our community's lands and resources were at one time or another given or sold by early governments to ancestors of certain of our contemporaries, these contemporaries have today a monopoly of one of the major factors of production. Then, because the community supports the power of these people to decide whether their land and resources shall be used or lie idle, they are able to collect for the use of their possessions a fee which in size is largely dependent on the value given to the land and resources by the community's growth and the use made of the resources. Several people who submitted views to the Temporary National Economic Committee argue that the fee is not a reward for service but a toll on production which is made possible only because our laws respect the private ownership of land. Our system of land ownership, then, is one of the institutional arrangements, one of the pieces of economic machinery, which some people wish to change.

GOVERNMENT SANCTION OF SELECTED TYPES OF BUSINESS ORGANIZATION

As a producing mechanism ours is a society which seeks efficiency through the use of a high division of labor. Unfortunately, in order to make specialization feasible, society finds it necessary to set up institutional arrangements which in themselves introduce new and difficult problems. One such institutional derivative, with which other recovery proposals concern themselves, is that of providing satisfactory forms of business organization.

Lone workers in simple societies have no problem of business organization. But when many men merge their specialized abilities in the production of single items, their agreements become hopelessly involved unless the community specifies the forms of organization which it will approve or prohibit. In its law, therefore, it does this. One form of organization of which the State approves is that of a single enterpriser, a second is that of the partnership, a third the cooperative, a fourth the corporation. The community also outlines the rights and duties, powers and privileges, liabilities and exposures

of the various contributors to organized production. By modifying the rights and duties, powers, privileges, etc., which it grants to people active under the various forms of organization, the community can modify the structure, prevalence, and social repercussions of each form. Adoption of intricate structural forms like the modern corporation—under which stockholders are given limited liability, for example—brings forth not only increased engineering efficiency, but unforeseen social repercussions such as the concentration of industrial control, the divorce of business responsibility from ownership, and the existence of business giants which can dominate the price policies of entire industries. Several recovery plans are highly critical of the current laws which make for forms of organization that contribute to such repercussions.

COMPETITION OR ADMINISTRATION AS THE INSTRUMENT FOR FIXING PRICES

Another economic mechanism which is made necessary by resort to division of labor is one for determining the ratios at which specialized products shall exchange. A lone worker in a simple society who conceives, directs, and performs each task in its entirety, finds that the harder he works and the more ingenious he is, the higher is his standard of living. If he consumes less than he produces, he can live on the surplus while he constructs capital goods with which to improve his efficiency when he returns to the production of consumers' goods. At no time is he faced with the problem of justice in determining what each of his factors of production—his land site, his capital equipment, his entrepreneurial effort, his manual labor—contribute to the value of the finished product. But when many men specialize in the production of a single item, then, although the specialization increases the rewards for all the specialists, the problem arises of devising some way of determining how many units of any one product, service, or asset is to exchange for another. How much capital is worth a bushel of wheat, how much labor is worth a beefsteak, how much lipstick is worth a cigar? How to determine the price of things is a very basic question. In practice the task takes the form of devising ways of determining the ratios at which goods and services shall exchange for units of whatever the community uses as its medium of exchange. Because so many recovery proposals aim at fixing or regulating prices directly, a look at the machinery upon which they would have to rely is in order.

By far the most common way of determining price is for the State merely to set the broad rules and to let the people work prices out among themselves. Under this method, when private enterprisers take the initiative in operating a business and undertake to pay out money for costs—for wages, interest, rent, materials, etc., they arrive at the cost sums by making price agreements with the sellers of labor, the renters of land, and the lenders of that capital which they themselves do not furnish. The prices or exchange ratios arrived at are reached by mutual agreement. Each party to the transaction drives as good a bargain as he can under the laws and working rules that prevail. By thus making voluntary agreements with those who assist him the enterpriser gets his goods produced. Having achieved this, he disposes of his products by driving another set of price bargains with

the buyers and consumers of his goods. If this second set of price agreements is such that the stream of money flowing to him for his products is sufficiently larger than the stream flowing away from him for his costs, he makes a profit; if smaller, a loss. At the production end, price competition with other entrepreneurs in hiring labor, buying materials, etc., presumably holds up his cost; at the selling end, price competition with other entrepreneurs in the disposal of goods presumably holds down his revenues. Every entrepreneur thus presumably does business between two millstone regulators of his income and outgo streams. Only if they leave him an adequate profit, can he survive.

Now our State uses two types of mechanism for lowering and raising the millstones. One is automatic price competition, the other is State regulation. Today our economy depends extensively on price competition to control the businessmen's intake and outgo prices. The State gambles that the "hiring-price competition" among entrepreneurs in their efforts to hire labor, land, and capital will keep their costs high; that in their efforts to dispose of their products the "selling-price competition" among them will keep their intake low; and that, as a consequence, the profit return within the economy as a whole will never be more than just enough to induce businessmen to undertake socially desirable enterprise. This reliance on competition to settle prices makes the role of the State a very simple one. For when the forces of competition work as intended, all State interference with the fairness of prices becomes unnecessary. Everyone bargains and haggles with everyone else, and in the process of doing so all goods are disposed of, all transactions are cleared, all spheres of industrial activity are correlated, and all goods are produced in the order of their desirability as seen by those who have buying power or capital. Once the rules of the game are written, the State simply stands by, impartially enforcing the price agreements arrived at but never injecting its own opinion as to what the exchange ratios ought to be. At least that is the theory.

But in recent decades the forces of competition have not worked as intended. The laws and rules under which price competition presumably took place also nurtured the growth of political and economic pressure groups, giant corporations and financial powers which have often used their controlling influence to interfere with the normal operation of price competition. Most economic groups, it seems, are reluctant to accept a competitive price for their produce if they can avoid it, because all groups suffer from the competition of one another. Moreover, all groups seem impelled to try to establish whatever price will assure them of a maximum return; they seem bent on "administering" their prices whenever they can. Thus in recent decades trade associations, labor unions, and corporations have often succeeded in eliminating the effects of competition from the prices which concern them directly.

Many students of economics believe that this interference with the competitive determination of price is the major cause of depression. Those who so believe, propose two types of cures for the situation. Several variations of their proposals have been made available to the Temporary National Economic Committee.

One type of cure regards flexible competitive prices as being highly desirable and seeks to restore price competition by penalizing those

who interfere with its free play. This type proceeds on the theory that if prices are perfectly flexible each increase in technological efficiency will result in lower prices, expansion of demand, and increased use of capital and labor.

The second type of proposal, which also focuses its attention on the price mechanism, holds that our competitive machinery has broken down so badly that it cannot be repaired, that our economic evolution toward price fixing cannot now be stopped or reversed, and that the only feasible alternative is to replace our hypothetically competitive prices (which in practice are often privately administered) with prices that are governmentally and "justly" administered. This type of proposal recommends that prices be set directly or indirectly by authority of the State. Even though many sponsors of this type of plan know that when competition is no longer relied upon for the determination of price, a State's only alternative is the discretionary decisions of officials, they are willing to have the Government go either into business or into the regulation of business and to rely on such discretionary control. They prefer to depend upon the wisdom, social-mindedness, and business acumen of regulatory commissions for the determination of price, rather than on the imperfect price competition which prevails at present. Many of those who submitted recovery plans recommending extensive governmental control over price did not seem to realize, however, that by setting both cost prices and selling prices regulatory bodies would have control over both the survival of private businesses and the distribution of income. Others, however, such as those who favor minimum-wage laws, favor governmental regulation of price for the very reason that business survival and income distribution can in that way be the better controlled by the State.

Certain subsidiary pieces of economic mechanism are made necessary whenever direct price control is resorted to. One such piece is the standardization of products. Commodity prices obviously do not pertain to abstractions but to definite sizes, shapes, and qualities of things. Hence a governmental resort to price control on a large scale necessarily calls for governmental machinery for standardizing products, as well as for a large and honest administrative staff cataloging the products.

Governmental resort to price fixing also makes necessary the wholesale definition and classification of business terms. Enforceing price decisions is not possible without exact definition and classification of those goods, services, and activities to which the controls pertain. When new spheres of industrial life are placed under arithmetical regulation, new definitions and classifications are necessarily called for. Enforcement agents must have them to lean upon. Yet delimiting and defining spheres of activity is a very difficult thing to do logically, since business processes do not take place within verbal frameworks. Business proceeds through adaptation of resources and processes by enterprisers to highly varying conditions without any regard whatsoever to how control agents might want to classify what they do. Administrative problems of increasing difficulty and complexity are thus introduced by centralized price or production control. Nevertheless, many re-employment plans prefer to face such problems than to rely on competition for the determination of prices, values, and incomes.

TYPE OF MONETARY MECHANISM POSTULATED

Society's search for efficiency through division of labor requires—besides the use of a mechanism for setting prices—the use of still another economic mechanism, that of money. For money is the instrument which makes feasible the exchange of hundreds of thousands of specialized products among hundreds of thousands of specialized producers. Were society not in possession of such an instrument, its gains from specialization in production would be largely nullified by the losses which would occur from the added difficulty of bartering specialized goods and services. Nonetheless, the modern exchange mechanism comes in for more criticism by sponsors of recovery proposals than does any other piece of economic machinery.

On April 8, 1939, the Board of Governors of the Federal Reserve System transmitted a statement to the chairmen of the Committees on Banking and Currency of both the Senate and House, suggesting that appropriate congressional committees or a special joint committee make a study of monetary views and proposals in relation to one another, both in order to discover the validity of the different plans and views and in order to outline objectives by which monetary and banking authorities might be guided. In its statement it enumerated the following kinds of monetary bills then before Congress which were seeking legislative action—many of them aiming to increase the supply of or control over money:[1]

(1) Those which would remedy the country's economic difficulties by the issuance of currency by the Treasury or the Federal Reserve banks.
(2) Those which would retire Government bonds by issuing paper money and thus reduce or retire the interest-bearing public debt.
(3) Those which would monetize silver at a high price and add silver certificates to the supply of money.
(4) Those which would impose a stimulus to the use of money by placing a penalty on money which is not promptly spent.
(5) Those which would change the ownership and management of the Federal Reserve System.
(6) Those which would require 100 percent reserves against demand deposits.
(7) Those which would establish a new system of banks to supply intermediate and long-term capital to small business.
(8) Those which would discontinue the current silver purchases.
(9) Those which would establish a fixed price for gold and reintroduce gold coins into circulation.
(10) Those which would not have the Government absorb so much of the country's savings through the sale of its own securities.

Needless to say, it is necessary, if one is to evaluate various monetary proposals and to see how they are related to one another, to review carefully the salient features of our exchange mechanism.

[1] Federal Reserve Bulletin, May 1939, pp. 363, 364.

A Mechanism Permitting Income Recipients To Diversify Their Demand for Goods.

In a monetary economy specialized producers, who have surpluses which they wish to trade for other things, exchange them indirectly. Usually all products are first exchanged for some one thing of economic worth like gold or silver which is easily evaluated, highly imperishable, easily subdivided, and highly compact. That unique thing, money, is then in its turn exchanged for the goods and services which are most greatly desired. By the roundabout process of comparing products with a standard of value, services, commodities, and privileges can all be equated with one another and exchanged. The services of men who build steamships and those of the men who run them, the services of men who raise oranges, and those of the men who advertise them, can all be equated and exchanged in this way.

By this means, too, each contributor to the productive process can be given, instead of his share of the particular product which he helps to create, a quantity of money presumably equal to his share of the money sale value of the commodity or service produced. This quantity of money is put into circulation as wages, salaries, taxes, commissions, royalties, rents, interest, dividends, and profits, and becomes the money income of the country. By resort to the instrument of money we convert each contributor's share of a particular product into the vastly broader opportunity of claiming in the markets diversified products of approximately equivalent value.

A Mechanism Permitting Income Recipients to Postpone Their Demand for Goods.

Modern money, however, does more than this. It gives the holder complete freedom in respect not only to *what* he will take in payment but to *when* he will take it. By making use of the device of money, producers of all kinds are given the privilege either of taking their reward in the period during which they produce the goods and services, or of suspending as long as they please the exercise of their right to choose products in settlement of their claims. Inasmuch as undue suspension of choice means a piling up of goods, we see one arrangement in our economy which helps to make possible the phenomenon of "idle money"—the phenomenon which President Roosevelt in his letter of May 16, 1939, specifically requested the chairman of the Temporary National Economic Committee to investigate.[2]

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[2] His letter included the following:

"In my message to the Congress initiating the work of the Temporary National Economic Committee, I had occasion to say that 'idle factories and idle workers profit no man.' It may equally be said that idle dollars profit no man. The present phase of the hearings before the committee bear directly upon this problem.

"It is a matter of common knowledge that the dollars which the American people save each year are not yet finding their way back into productive enterprise in sufficient volume to keep our economic machine turning over at the rate required to bring about full employment. We have mastered the technique of creating necessary credit; we have now to deal with the problem of assuring its full use.

"In the series of hearings which the Securities and Exchange Commission is to hold before your committee, I take it that a major problem of your committee will be to ascertain why a large part of our vast reservoir of money and savings have remained idle in stagnant pools . . .

"The hearings before your committee, I hope will assume the task of analyzing the financial machine in its relation to the creation of more needed wealth. We know that the mechanism can be improved. Improvement can only be made on a basis of clear analysis. Having made that analysis, I hope that your committee will then be able to indicate ways by which the machine may be made to function more efficiently." (Hearings before the Temporary National Economic Committee, Part 9, Savings and Investment, Washington, 1940, p. 3519.)

Because the majority of sponsors of recovery proposals single out "idle money" as one of our major disarrangements (even though they disagree widely about what "caused" it, and about how to correct it), it is well to examine basically how it manifests itself. In his testimony before the Temporary National Economic Committee, Ralph W. Manuel, president of the Marquette National Bank of Minneapolis, used an illustration that brings out a major disarrangement which results when money is used tardily for any reason whatsoever.[3] In condensed form the illustration was as follows:

Let us suppose that a hundred families occupy a completely isolated island and undertake to raise their potatoes collectively, that each family is to receive its share of the crop in proportion to the contribution which it makes to the production thereof, and that a manager from day to day delivers to each family claim checks evidencing the contribution that each has made. When the crop has been harvested and a sufficient amount has been put away for seed, there might be a thousand bushels of potatoes in the pile and there might be a thousand claim checks outstanding.

If some families have acquired claim checks substantially out of proportion to their needs for potatoes, these families may choose to present only part of their claim checks and to save the remainder for use in some future season. The manager of the enterprise may then find that a hundred bushels of potatoes remain uncalled for. The less fortunate families will have received their full share of the crop, and the more fortunate families will have received all they can use; so the enterprise appears to have been a complete success. But what about the hundred claim checks that are still outstanding? Shall the families who neglected or refused to accept their shares of this year's crop be permitted to claim shares of next year's crop instead, even though their claim checks do not evidence any contribution to the production of next year's crop and the whole of that crop will belong to those who produce it?

Manuel concludes that the plan of collective production can function only by repudiating, at the beginning of each new season, the claim checks that have been issued during previous seasons and have not been presented. This principle is not recognized, however, in our complicated modern economic scheme.

In this illustration an issue is raised which is so basic and vital to an understanding of all recovery plans related to the monetary mechanism that the writer wishes to consider it at some length. Inasmuch as the claim checks which we use today not only do not depreciate if held out of use, but actually increase in value (in terms of goods), it is well to examine what we have done to our institutional arrangements to generate such results.

Whatever changes have been made in money have represented evolutionary efforts to substitute one more efficient medium of exchange for another. Our historical shiftings—from barter to warehouse receipts, to gold, to certificates of indebtedness, to deposit credits, etc.—have all been with a view to helping specialized producers exchange their surpluses more easily. But have we in our efforts inadvertently built a continuing imperfection into our system which

[3] Hearings before the Temporary National Economic Committee, Part 9, pp. 3707, 3708.

facilitates the disruption of exchange, and through exchange both production and distribution?

Continuity of exchange, full-blast exchange, should probably be the goal of all recovery efforts. For without it full use of our highly specialized facilities is impossible. A pioneer settler who works alone, as stated above, finds that the harder he works and the more ingenious he is, the higher is his standard of living. The same will be true of a second man who settles near by and works independently. If there is a division of labor between the two men so that each worker specializes on one-half of the budgetary items, then the average output of the two men will undoubtedly be larger than before. If both men then exchange (that is "spend") their surpluses rapidly enough to maintain full-blast activity for each other, the standard of living of both will rise because of the specialization. Note, however, that in such a situation the standard of living of the two men depends not only on their efficiency and willingness to produce but also on their willingness to exchange or spend. Note that this is so whether the number of men involved is 2 or 2,000,000, and whether they exchange their surpluses directly or through some money-like common denominator of value, such as bushels of wheat or pounds of tobacco.

Notice too that the moment a worker specializes he subjects his standard of living to new dangers, for it then depends largely on an "effective demand" coming from someone other than himself, and this demand may be fickle. When workers specialize, it is a primary requisite for full production that every specialized producer keep offering to the markets the surplus of his specialty; also that he be willing, not only to accept in payment for his surplus the best offer he can get in the markets, but to accept that offer so promptly that neither he nor other producers are led to curtail their production in efforts to get higher prices. Socially, it is even more important that he accept payment promptly than that he personally get a square deal. For, when full-blast exchange maintains production and the actual product is there, an unfair price only generates an unbalanced distribution that might be corrected by taxation; but when exchange is delayed, production and the net living standards of the community decline in a way beyond repair.

Even if goods are not bartered directly but are exchanged through a neutral commodity which serves as the community's medium of exchange, the shift of buyers and sellers—first into money and then back again into goods—should be so rapid that neither the holder of surpluses nor the holder of money is instrumental in causing production to slow down. If holders of money or goods elect to slacken their rates of offering in order to get better bids for their holdings, they cause some specialized workers to become unemployed. Money should properly be a store of value sufficiently stable to enable specialized producers to get from the possession of one kind of product to another—say, from wheat to butter, or from wheat to gold and then to butter—without suffering greater losses in the process than they would incur if they sat idly by with their own surpluses; but money should not be so good a store of value that producers can retire into it and stay away from the production process so long as to force other

producers to offer their wares at sacrifice prices in efforts to lure them back into the markets again.

In a non-monetary community, or in one that uses a perishable commodity like tobacco or grain as its medium of exchange, the money-substitute is no better as a store of value than it should be. Continuous offering and rapid acceptance of offers in such communities is insured because the retention of surpluses involves carrying charges, deterioration losses, and tax and warehouse charges. With few exceptions, nature's products depreciate with time: Fruit spoils, meat decays, lumber rots, butter turns rancid. Moreover, most societies levy taxes on tangible property in order to maintain the rules of law which protect and preserve property. Thus both nature and society impose certain incentives which insure that specialized producers offer their surpluses in exchange and accept the market bids for them rapidly enough to keep themselves and others busy at their specialized tasks.

In modern societies, however, we have inadvertently created through our banking machinery a form of economic asset which has no carrying charges; and that asset we use as our medium of exchange. It is therefore possible today for a producer of cotton, steel, personal service, shoes, or any other product, to exchange the surplus of his specialty for the certificates and records of indebtedness which constitute our present-day claim checks, and then to withdraw from the productive process without incurring any carrying charges on the asset that he holds. In fact, by selling out his surpluses at a certain price level and withdrawing from the markets, he can hold idle society's exchange tool, money, and can force other specialized producers of tangible wealth, who may not have been as agile as himself in "getting liquid," to lower their prices in efforts to bait him into releasing his money. As employers and employees who were slow in becoming liquid attempt to bait with goods and services those who have partly withdrawn from the productive process, the price level falls and makes money as an asset still more valuable to those who continue to hold it idle or to reduce its rate of use.

How the power to postpone demand arose.—A tracing-through of our present-day method of creating credit money will enable us to see how, in going from barter money to modern credit money, society accidentally not only removed carrying charges from its medium of exchange but also so altered it that it became adapted to appreciation in value when sluggishly used. In order to understand why modern money can be sluggishly used with impunity it is necessary to recognize two things: (1) that money is a debt instrument—an asset held in the form of a debt claim; and (2) that assets held in that form differ in a most important particular from assets held in the form of outright titles to wealth.

(1) In our society there is usually a reserve of wealth behind every evidence of indebtedness. Titles to houses worth $10,000 frequently serve as collateral for $1,000 mortgages; factory facilities worth $5,000,000 frequently "secure" $1,000,000 bond issues; $1,000,000 enterprises frequently secure the $50,000 notes of bank borrowers. Now it happens that our "dollars"—the paper and deposit dollars which together constitute our medium of exchange—are assets of the type which have their values fortified with reserves of wealth. For dollars are brought into being by banks when they transmute into demand obligations

against themselves the obligations of bank borrowers who fortify their debts with reserves of wealth.

Businessmen and farmers could conceivably use their own obligations as mediums of exchange without first converting them into demand-deposit equivalents. A wheat farmer, for example, could write on a piece of paper "I promise to deliver to bearer 100 bushels of wheat in 180 days," and that promise—backed as it would be with the value of his crops, barns, etc.—would have value in the community. The institution of contract gives exchange value to such promises. But in order to make his promise into a better exchange instrument the farmer elects to state his obligation as a promise to deliver dollars in 180 days instead of wheat, the product for which he expects to obtain the promised dollars. He knows that if he puts the obligations against himself into dollar form, he can for a fee exchange them for the dollar obligations of the bank. He knows that by using the buying power of the already created deposit dollars as a gauge of the value of the debt which he offers for conversion (formerly he used the value of gold as his gauge) he and the banker can transmute private debt into bank debt. Today it is by making such exchanges that businessmen create new money.

(2) Mortgages, bonds, and notes do not fall far in value when demand and industrial activity decline so long as the contraction in demand does not decrease the dollar value of the wealth assets behind these forms of indebtedness below the face value of the debt certificates themselves. If you, for example, own a $1,000 mortgage against a house that was worth $10,000 at the time of the loan, your asset is relatively stable in value so long as the fluctuating market value of the house, the security behind the borrower's obligation to you, exceeds the value of your claim. If the value of the house falls to $8,000, reducing the owner's equity in it to $7,000, your asset will probably still be worth $1,000 because of the reserve of wealth behind your claim.

Observe also that the note, mortgage, and bond obligations which borrowers transmute into money always have collateral behind them, and that the deposit dollars which the banks create against borrowers' debt obligations are exactly as immune to depreciation as the collateral against which the deposit dollars are minted. Thus "debt assets"—like bonds, mortgages, and deposit dollars—differ fundamentally from "wealth assets"—like homes, automobiles, and radios. The monetary value of a "wealth asset" fluctuates widely; the monetary value of a "debt asset" on the other hand is relatively stable because it is fortified with a reserve of wealth. This means that modern credit money—because it represents an insured claim—is intrinsically an asset with a valuable characteristic which "wealth assets" do not possess.

This review of the nature of money represents the writer's own views which he elaborated much further in his When Capital Goes on Strike.[4] The review provides a link which he felt necessary for the synthesizing of recovery plans.[5] It brings out that deposit dol-

[4] Harper & Bros., New York, 1938.

[5] Some economists, however, hold to a different view. Stuart Chase, for example (In The New Republic, December 18, 1935, vol. 85, p. 162), says: "For a long time the tradition lingered that money, being tied to gold, had intrinsic value. With the world-wide abandonment of the gold standard, it is now generally agreed that money is not worth anything in itself; it is simply a useful convention, a game we play." Today there are recovery proposals based on this diametrically opposite view as well as on the view outline above.

lars which are created for borrowers and disbursed by them for materials, wages, salaries, rent, etc., are not likely to decline in value if tardily used by their recipients. No carrying charges are placed on the money distributed, with the result that the recipients are privileged, under the particular mechanism of money and banking that we employ, to hold the money received indefinitely. They are privileged to hold without carrying charges as one of their life savings an asset which was created to serve merely as a medium of exchange. Money received in 1 year, recipients are privileged to spend slowly over a period of many years. They are privileged to lower its rate of use despite the fact that, as above indicated, our economic system automatically generates falling prices, lower values, closed factories, insolvencies, and unemployment when money is tardily used. There is today no device in our monetary mechanism which insures that money be respent at the same rate at which it is disbursed by the men who were instrumental in creating it.

Thus, because they are in the form of debt and as a result are fortified with reserves of wealth, present day claim checks, which were originally designed by potato-raising society only to facilitate exchange, are also adapted to forestall exchange and production itself. Institutional arrangements which provide us with such claim checks, or which permit the non-use of such claim checks, are among the major arrangements which proponents of recovery proposals wish to change. No central theme is more generally adhered to by supporters of recovery poposals than that the idleness of money must be overcome in some way if depression is to be eliminated. Whether their proposals aim at flexible prices, Government spending, "restoration of confidence," or something else, they agree surprisingly well on the view that money must be kept moving.

Historic unconcern with the aggregate demand function.—In general, economists have come to recognize that when owners of dollars hurry to exchange them for goods, demand increases and production booms; that when holders of goods hurry to get dollars, demand declines, prices fall, and output shrinks. Today economists recognize that when goods are deemed the more valuable, we have booms; when dollars, depression. Many of them consequently advance recovery proposals of one form or another which are designed to increase the dollar demand for goods. This is, however, a new and revolutionary concern for economists. Although they have historically concerned themselves with repercussions which result from fluctuations in demand for particular commodities, they have almost always concurrently assumed in their theory that stability automatically prevailed in the aggregate monetary demand for goods. That was Say's "law." Few of them regarded declines in aggregate demand as reflecting a decreased rate of use of money, and none observed that it resulted from the institutional removal of carrying charges from the medium of exchange. In fact, many of them specifically argued that money as an exchange instrument was a neutral tool which of itself would cause no serious derangement of the level of production. As a group they had accepted Say's and Ricardo's view that, even though monetary

demand were left uncontrolled, it would never be seriously lacking. As John Maynard Keynes says:

> The idea that we can safely neglect the aggregate demand function is fundamental to the Ricardian economics, which underlie what we have been taught for more than a century. Malthus, indeed, had vehemently opposed Ricardo's doctrine that it was impossible for effective demand to be deficient; but vainly. For, since Malthus was unable to explain clearly (apart from an appeal to the facts of common observation) how and why effective demand could be deficient or excessive, he failed to furnish an alternative construction; and Ricardo conquered England as completely as the Holy Inquisition conquered Spain. Not only was his theory accepted by the city, by statesmen, and by the academic world, but controversy ceased; the other point of view completely disappeared; it ceased to be discussed. The great puzzle of effective demand with which Malthus had wrestled vanished from economic literature. You will not find it mentioned once even in the whole works of Marshall, Edgeworth, and Professor Pigou, from whose hands the classical theory has received its most mature embodiment. It could only live on furtively, below the surface, in the underworlds of Karl Marx, Silvio Gesell, or Major Douglas.[6]

It is the writer's opinion that the causal relationship between the inadequate demand for goods and the accidental institutional removal of carrying charges from the medium of exchange, a relationship which even Keynes ignores, is the missing link of economic theory. However, even though economists have not as yet discussed how the evolution of money into its modern form has operated to give hoarding opportunities to holders of money, they do admit today the fact of hoarding, the inadequate rate of use of money. Recovery proposals before the world today, consequently, indicate that the unconcern with aggregate demand is slowly disappearing. A host of extant monetary proposals, now to be reviewed, will make that clear. It will be possible to consider in detail only the proposals aiming to correct the serious deficiencies in the exchange mechanism.

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[6] J. M. Keynes, General Theory of Employment, Interests and Money; Harcourt, Brace & Co., New York, 1936, p. 32.

CHAPTER II

MONETARY REVISION: GOVERNMENTAL INJECTION OF NEW PURCHASING POWER

GOVERNMENT SPENDING: PROBLEMS AND METHODS OF FINANCING

For full-blast operation of our industrial system it is necessary that claims to current production be exercised as rapidly as goods are produced. In the aggregate, recipients of money claims must turn around and release them at the same rate at which they receive them or depression will ensue. (1) Money must be kept moving at the rate at which it is disbursed by the men instrumental in creating it through bank borrowing. Or, (2) if this requirement is not met, then, to avoid falling prices and unemployment, a new and balancing quantity of purchasing power must be injected into the markets.

The two requirements for full operation just cited are theoretical alternatives, and logically enough each has called forth a broad type of monetary proposal with many subtypes. One of the broad types wants the Government to undertake the difficult task of insuring that recipients of money themselves use their money at an adequate rate. Tax concessions, tax pressures, official reassurances, pleadings, and "confidence"-instilling legislation are among the means suggested for getting the desired spending behavior. The other broad type of proposal wants the Government to undertake the task—also difficult—of introducing into the markets from time to time new quantities of purchasing power to offset the deficiencies in spending which result when the money claims derived from the normal processes of production are sluggishly used. Both approaches posit that the crying need of present-day governmental policy is an institutionalized control over spending (with "spending" used to mean outlays for either consumption or investment goods). The first approach seeks primarily to activate or systematically control the velocity of money; the second, the supply of money. Because in practice governments which experience depression have done almost nothing about the first approach, because practically all of them have used the second approach to some degree, and because there are far more variations of this second type of recovery prosposal than of any other, it is well to survey it first.

These plans take many forms. Throughout the depression there have been those who advocated that the Government gather in sluggishly used money by taxation and substitute itself as the spender until private money-holders are induced by its action to spend again in a satisfactory fashion. Others have advocated that the Government borrow and spend only a limited sum to reach a limited goal. Still others have wanted the Government to borrow all the laggard

money and spend it until full production is reached. Many other variations exist. They revolve around the following sets of problems (which all necessarily arise when it is proposed to utilize the compensatory-spending technique to a degree such that all employable workers are absorbed):

1. How much money shall the Government borrow or otherwise gather in and spend? What theoretical considerations determine the limits?
2. How shall the Government obtain whatever funds it needs? Should new money be created through bank borrowing? Should old money be borrowed at interest or not? Or should money be obtained through higher taxation on the upper-income groups?
3. How shall the Government repay borrowed funds? And when should it repay them? Or should it never repay the debts at all?
4. For what should the money obtained be disbursed? Should it be passed out in direct relief? And if so, to whom should it be given? What criteria should govern? Should the money be spent primarily for capital goods? Or for conservation of our social and natural resources? Should it be disbursed through small loans to businessmen, or through small loans to residential builders? Should it be disbursed for an armament boom, or for public buildings and roads? Or only for self-liquidating projects of a type and size which private industry cannot handle?
5. How shall prices be held down when Government disbursements absorb the unemployed and the competition for labor shifts both labor costs and the price level? Should prices be allowed to find their own level? Should direct price control be resorted to, as in Germany? Or, in the effort to hold down prices, should industrial activity itself be curtailed by raising reserve requirements, changing the rediscount rate, and resorting to open market operations?

GOVERNMENT SPENDING FINANCED BY BORROWING

Four major types of reemployment plans which would have the Government offset deficiencies in private spending by injection of funds obtained by borrowing, will be considered: (1) "Pump-priming" proposals; (2) Government-sponsored lending to private groups or individuals who will start the funds moving; (3) Government spending for relief; and (4) systematic compensatory spending of a capital-investment nature to offset deficiencies in private spending.

"PUMP-PRIMING" PROPOSALS

The "pump-priming" version of the compensatory-spending technique, of which J. M. Keynes has been a strong advocate,[1] proposes

[1] In an "open letter" to President Roosevelt on Dec. 30 ,1933, Keynes wrote as follows: "As the prime mover in the first stage of the technique of recovery, I lay overwhelming emphasis on the increase of national purchasing power resulting from governmental expenditure which is financed by loans and is not merely a transfer through taxation from existing incomes. Nothing else counts in comparison with this. * * * In a slump governmental loan expenditure is the only sure means of obtaining quickly a rising output at rising prices." (N. Y. Times, Dec. 31, 1933, VIII, p. 2, col. 2.)

that in periods of depression the Government borrow—in return for interest-bearing bonds—those claim checks which private individuals do not pour back into the income stream of the Nation as rapidly as they receive them. These borrowed claim checks are then to be diverted into public works activity. Regardless of the level of business activity at which the pump-priming process begins, additional production, employment, and profits can be generated if the operation is carried out on large enough scale. And pump-priming advocates do propose to carry it on until profit margins and price trends turn upward and instill in businessmen a double incentive to expand their own capital-goods activity. When capital investments have been thus activated, the priming is to be discontinued, additional tax revenues are to be collected (at no increased rates of taxation), and the bonds against which the money was borrowed are to be retired

Except for a short period in 1937, the pump-priming technique has been a major recovery tool of the United States Government for the past 6 years. From 1933 to 1937 the Government borrowed money against new debt and diverted it to willing spenders to such an extent that industrial activity was sharply expanded and unemployment cut from about 15 million to 7 million. However, in late 1936 and early 1937, when rising industrial activity began to induce laggard holders of claim checks to use their money in making new investments and the price level began to rise, the Government reduced its borrowing drastically. It reduced its public works activity, announced a budget-balancing policy, and for a few months, with the help of new social security taxes, practically balanced its budget.

If we recognize that, to obtain desired results with the pump-priming technique, the size of Government expenditures must vary widely—depending greatly on whether the trend of new orders in private industry for consumers' goods and capital goods is headed up or down—there is good reason to believe that pump-priming can, if enough water is used, stimulate private industry to higher levels of activity.

A major criticism of the technique, however, is that it makes no basic improvements in the rules of the game—no change in the design of an economic engine which has demonstrated that it generates depression. Pump-priming calls for only administrative adjustments. It is, moreover, inherently unable to generate full employment: it merely proposes to induce additional activity by inaugurating a period of rising profits and prices and then to stop whenever private industry takes hold, regardless of how far short of full production the level of activity may be at the time. Unless those economic maladjustments which caused the depression in the first place, and which pump-priming was invoked to cure, have on the whole been corrected, it is questionable whether private spending will continue long at the higher, induced level after Government support has been withdrawn.

It is also questionable whether tax revenues likely to be obtained during the induced periods of recovery will be adequate to retire the funds used for priming the pump.[2] Too, it is very unlikely that added tax burdens levied for debt-retirement purposes will be placed only, or even primarily, on the unused incomes of those who gener-

[2] The proper point of transition between injection of purchasing power and the heavier taxation necessary to pay off the debt incurred is exceedingly difficult to determine; and if the pump-priming period is too prolonged, retirement of the debt in the ensuing period is made increasingly difficult.

ated the depression by using their money too sluggishly. More likely is it that it will fall on the recipients of current income, whoever they may be. In 1937, for example, when Government spending was reduced and a budget-balancing policy announced, the new taxes imposed were levied not on the unspent incomes of laggard spenders but—in the form of social security taxes—on employers and employees.

The "Deane Plan."

A reemployment plan, empirical and rather hybrid in design but of the compensatory-spending, pump-priming type, is the rather well-known "Deane Plan." [3] In periods of depression this plan would governmentally divert to unemployed and partially employed workers tax revenues collected from workers and employers during periods of relative prosperity. To initiate the scheme during depression the Government would resort to borrowing, these loans to be retired later from the tax collections. The plan would make eligible for benefits and taxes all workers, employed or unemployed, in all industries—except agriculture and personal service, whose average earnings were less than $60 per week during the previous year. The plan would divide the country into regions and be administered regionally.

At the close of every month the average weekly hours of employment of all "eligibles" in each region would be computed. This would give a "regional average"—35 hours per week, for example. At the close of every year the average weekly hours of employment of all eligibles in the country for the past 10 years would be computed. This would be called the "national average."

Whenever an eligible works fewer hours during a week than the regional average, he would receive additional income from a reserve fund which would have been provided. His extra compensation would be equal to 50 percent of the additional amount he would have received had he worked the full regional time. Should his working week also fall short of the national average, he would receive an additional sum equal to 50 percent of what he would have earned in the number of hours by which his working week is short of the national average.

If the employer works his men more hours per week than the regional average, then both the worker and the employer contribute to the reserve fund a sum equal to 25 percent of the worker's hourly wage multiplied by the number of hours worked in excess of the regional average. Similarly, both the eligible and his employer pay a tax equal to 25 percent of the hourly wage for each hour worked above the national average.[4] The employer would be responsible for deducting the tax from the worker's pay and transmitting it with his own contribution to the collector of internal revenue, who, under the plan, is entrusted with the handling of the funds.

Under these provisions for building up the reserve fund, particularly the taxes effective whenever the working week exceeds the 10-year national average, it is obvious that contributions often would be made at times when unemployment is severe. The authors realized that it would be difficult to initiate the program during depression, and so—in lieu of funds obtained through taxes—they proposed, as

[3] Albert L. Deane and H. Kittredge Norton, The Deane Plan (New York), 1933.
[4] Ibid, pp. 26, 27.

an initial source of revenue, that the Government borrow a maximum of $3,500,000,000.[5] These funds would be used for payments to eligibles on the basis outlined above, and the loans would be repaid from the reserve fund.

Inasmuch as the building up of the initial reserve fund by taxation would be deflationary during depression and provision therefore had to be made for obtaining funds by borrowing, the only part of the proposal which has significance as a recovery plan is the suggestion to prime the pump in a unique manner with Government subsidies. Disbursing $3,500,000,000 would prime the pump even better than the "soldiers' bonus" primed it, but the Deane Plan as such introduces no new force or formula which would operate to keep business going once it was accelerated.

As a long-run plan to smooth out the business cycle, the plan is empirical and unintegrated. It might help to even out the weekly income of workers, and by smoothing purchasing power over the cycle it might tend to flatten it somewhat; but this would no doubt be achieved only at unreasonably low level of average wages, purchasing power, and business activity.

GOVERNMENT-SPONSORED LENDING

Of the "compensatory-spending" type of recovery proposal there is a second variety: extension or sponsorship of loans by the Government. This plan likewise is not inherently adapted to generation of full employment but only to relief by administrative adjustment. This variety has subtypes which derive from the different groups to whom it is proposed to lend money. Some of the subtypes propose to lend money to small business men; some to "consumers," home builders, or farmers; some to banks and insurance companies; some to railroads, etc. Some propose to lend directly through a loan agency of the Government money obtained from private savers in return for interest-bearing obligations; others propose to have the Government merely insure loans made by banks to governmentally designated business groups. The United States Government already has set up about a dozen lending agencies, and has lent about $12,000,000,000. The Reconstruction Finance Corporation alone has lent since 1931 over $7,000,000,000.[6] Many people propose to extend the scale of such loans as a recovery measure.

Direct Government Loans.

Consumer credit loans, for example, are proposed by Maxwell C. Katz.[7] He would have the Government make loans to employed workers in sums equal to five times their weekly earnings. The loans would be in the form of merchandise-credit certificates, would carry 3 percent interest and would be repaid at the rate of 2 percent per week. Katz argues that money offered at such rates would induce the majority of American workers to take advantage of the offer and lead to the borrowing of from two to three billion dollars, also

[5] Ibid, pp. 47, 48.

[6] Quarterly Report of Reconstruction Finance Corporation (Quarter ending September 30, 1939), 1940, Table 1, p. 9.

[7] Address: 120 Broadway, New York.

that the rapid spending of such a large amount of otherwise stagnant money would provide a strong stimulus to business.

Robert C. Barnstone[8] proposes that all "small businessmen" be granted loans of a minimum of $100 per year, and that the loans be increased annually for 10 years if the business and repayment performance of the borrowers is satisfactory. He would have the Post Office Department of the Government act as the agency which investigates the borrower and handles the loan.

Government Insurance of Private Loans.

Of the many proposals currently before the public which call for Government-sponsored loans to business groups, the best-known one is probably the "Mead bill," which was widely discussed during the Seventy-fifth Congress. The bill was sponsored by Senator James M. Mead, of New York State, and endorsed by Assistant Secretary of State A. A. Berle, Jr., Chairman Jerome N. Frank, of the Securities and Exchange Commission, and Chairman Marriner S. Eccles, of the Federal Reserve Board.

The Mead bill would have the Reconstruction Finance Corporation insure loans which banks make to small business. The Government would insure the last 90 percent of each loan, and have the banks risk the first 10 percent as an incentive to them to use good judgment in the making of loans. The Government would charge an insurance fee against business failure by the borrowers, and would stipulate that the banks in their turn could not charge, in addition to the insurance fee, over 4-percent interest on the money lent. Loans would be made for from 1 to 10 years, so that many of them would be in the nature of capital loans. Up to $1,000,000 could be lent. To provide for their liquidity the Federal Reserve would accept the loans as eligible for rediscount.

Inasmuch as United States Government lending agencies have been fairly successful as bankers (only two agencies, the Home Owners Loan Corporation and the Regional Agricultural Credit Corporations, show deficits), inasmuch as an insurance premium on loans is charged which is based on the past rate of business failure, and inasmuch as means are to be provided for preventing banks from insuring only their sour loans, it may well be that adoption of the Mead bill would lead to a wholesome increase in the use of funds by small business. Especially is this true if our present banking machinery in itself makes it unduly difficult for small businessmen to borrow.

Since the economic system has no monetary machinery which insures that those who save money out of current income themselves lend it to consumers or businessmen, or that they use it for capital investment, more employment and production is at least temporarily insured by some form of Government-lending program than by doing nothing about diverting money savings to users in increased quantities. The policy simply purchases activity at the expense of additional direct or contingent Government debt. Such procedure means, however, that—unless the continuous growth of the Federal

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[8] Address: 21 Maiden Lane, New York.

debt is viewed as of no consequence—the proposal to use Government-sponsored loans as a support to business activity is an ameliorative rather than a corrective proposal.

Government Loans to Support Debt Structures.

The plan to use Government loans to support existing debt structures, rather than to assist borrowers who themselves wish to use the idle funds for buying industry's current goods and services, is still another version of the Government "spending-lending" proposal. Under this plan the Government would borrow at interest the sluggishly used funds of people with money savings and divert them to those large industrial and financial enterprises whose failures would bring losses to large numbers of relatively poor people. At the time of the bank holiday in 1933 the debt structures of banks, insurance companies, and railroads were heavily supported by Government loans. Such aid has continued in some degree ever since. Some people recommend as a recovery measure an expansion in Government loans to support not only the solvency of industrial and financial organizations but also that of farmers and home owners. In order to judge the merits of a proposal which aims at recovery by forestalling insolvency, it is necessary to examine further the nature of debt.

Debt represents in modern society a peculiar kind of contractual arrangement which society both permits and enforces. The making of debt agreements in business permits parties to such transactions to place most of the risk of a business venture on one party to the agreement and to remove it from the other. To illustrate: If two brothers each invest $50,000 in a business venture, the state permits them to arrange between themselves, first that the contribution of one brother shall be regarded as "share capital" and shall receive a return only if the business earns a profit, and secondly that the contribution of the other brother shall be regarded as "fixed capital" and shall receive a definite, limited return from the venture, even if the business loses money and it is necessary to pay this return out of the share capital which was put up by the first brother.

It seems reasonable that a state should be interested in using its control machinery to insure that money savings which are not spent for consumption goods be spent immediately for capital goods. The over-all requirement, that money savings be exchanged promptly for physical savings regardless of how spenders apportion the risks among themselves, would seem to be a logical concern of government. But, as it is, the state concerns itself more with how those who do invest apportion the risks among themselves. First the state permits agreements to be made between cooperating investors to the effect that the assets of one party to a transaction are to insure the value of the assets of the other. Then, if recipients of claim checks to current production withhold their demand from the markets so extensively that commodity prices, production levels, business profits, and capital values decline to the point that even the capital of stockholders does not suffice to meet the contractual claims of bondholders, the state uses an appreciable part of its court machinery to assist bondholders in liquidating enterprises. Such liquidation, with its reshuffling of own-

ership and management, is itself disruptive of production and employment.

Although as H. F. Stoke[9] says, a state could have capitalism in all its pristine purity if it permitted the existence of only share capital and forbade the existence of fixed capital, it chooses to support arrangements of questionable value which concern themselves largely with the apportionment of individual risk. Now that the invention of the corporate form of business organization enables money savers to diversify their investments and reduce their risks, it might not be necessary for the state to provide savers with the fixed-debt form of contract which brings about disruption of business whenever money receivers unduly withhold their money from the markets. All businesses might use corporate structures like those employed today by our large automobile companies rather than like those used by our railroads. Later we shall review proposals which recommend as a recovery measure the partial elimination of bonds and mortgages from the business structure. Here we are concerned with the merits of Government loans to support the solvency of corporations and individuals whose earnings do not suffice to pay interest on borrowed capital.

If a government borrows the savings of income receivers who use their money sluggishly, and in the form of loans diverts these savings to corporations whose solvency is endangered by the sluggish use of the money, solvency can be protected indefinitely. Receiverships and foreclosures can be prevented, but contingent national debt will rise. Moreover, since government cannot know when income receivers who save will again be disposed to re-spend their money as rapidly as they receive it, it can have no assurance that its lending policy provides more than temporary relief. Its support of imperiled investments might have to go on indefinitely. If the government is bent on protecting the solvency of borrowers or the investments of creditors, it may well discover that it has embarked on the long road of either converting private debt into public debt or augmenting private debt with public debt.

In theory, government support of private capital structures through loans might be advisable at certain times. During the trough stage of a business cycle—for example, when prolonged industrial stagnation probably has through obsolescence, depreciation, and technological advance reshaped the situation so that investment opportunities have again arisen, and the stampede for liquidity irrationally continues, nonetheless, security values may be below the levels which current business activity justifies. In this case government support of capital structures may be desirable. At such times government support of debt structures would ease appreciably the pressure on security markets, and in that way forestall many liquidations until private spending again expands business earnings. In practice, of course, it would be difficult to know when the particular stage of the depression indicated was at hand. Government aid in 1929, for example, would, in retrospect, have been advanced too soon. Perhaps aid in 1930 and 1931 would also have been too soon. At best there are no criteria by which to determine the

[9] **Address: 1420 Watts Ave., Roanoke, Va.**

proper time for supporting corporate solvency with government loans, or for determining how much aid should be extended.

GOVERNMENT SPENDING FOR RELIEF

Many of the plans which support government spending and lending as a recovery measure set no theoretical limits to the amount of spending recommended. The criteria implied are public need and expediency. The Federal Emergency Relief Administration, for example, seemed to have as the basis of its operations no theory of monetary balance. The needy unemployed existed, and the F. E. R. A. simply sought to borrow enough funds to help them. Sociological criteria sufficed. Plans with similar criteria are those which recommend helping not only the distressed unemployed but the blind, the aged, widows with children, and so forth. Our current system of Federal, State, and local public relief is of this kind.

Similar plans are those which call for government subsidies of borrowed funds to selected groups of consumers. The soldiers' bonus subsidy of approximately $2,000,000,000 voted in 1936 was such a plan. So is the plan of Mrs. Ruth Hall Chatfield [10] which proposes that a Federal subsidy be granted to mothers for each baby born to them. Government subsidies, if made on a large enough scale, can undoubtedly generate increased business activity. But difficult problems arise. How large can the outlays be without causing pronounced increases in the price level? How shall the Government select the groups to be subsidized? How determine the amount to be awarded? Only the latter issues will be touched on here; the former will be discussed under another heading.

The equitable and efficient rationing of borrowed money by political representatives is a tremendously difficult problem. Should Negroes be given as much money as the whites? Should carpenters be given as much as white-collar workers, or more? Civilians as much as war veterans? City residents as much as country folk? People in Alabama as much as people in New York? Bachelors as much as mothers? Orphans as much as people over 65? Few criteria other than political pressures tend to prevail. Those people who build up the strongest pressure-groups are usually treated best; the unorganizable, worst. A democratic government by its very nature has poor machinery for administratively dispensing purchasing power in "just" proportions.

SYSTEMATIC "COMPENSATORY SPENDING": CAPITAL OUTLAYS TO OFFSET DEFICIENCIES IN PRIVATE SPENDING

The particular version of the compensatory-spending technique which seems to receive the widest academic support is that which recommends that government borrowing and spending proceed on such a scale that the spending deficiency resulting from the tardy use of money handed out in normal production will be completely offset. Men who advance such compensatory-spending views are Prof. Alvin H. Hansen, Prof. Arthur W. Marget, Marriner S. Eccles, Lauchlin Currie, "Seven Harvard and Tufts Economists," Stuart Chase, A. A. Berle, Jr., and others. All these men are advocates, not of sporadic pump-priming efforts, but of systematic, continuous, and long-range

[10] Address: Baldwin, New York.

coordination of governmental activities with private business. Among the theoretical bases advanced for their views are those that follow:

(1) High capital-goods production is in itself necessary for prosperity; since prosperity does not exist, the Government should provide for capital-goods production out of borrowed savings. (2) Adequate investment outlets do not exist today in private industry and, since money cannot be invested without outlets, the Government should provide them. (3) Money savings should be promptly converted into physical savings such as public or private works, and since savings currently are not being adequately converted into private works, they should be converted into public works. (4) There are many kinds of worth while activity, such as soil conservation, highway construction, bridge building, reforestation, and health conservation, in which private individuals and corporations cannot feasibly engage but which the State can undertake. Note that all of these theoretical bases provide for activity in the field of capital investment. The virtue of practically all proposals for systematic compensatory-spending is that they are tied by their sponsors to the "problem of savings" and, therefore, are theoretically more integrated than other types of Government-spending proposals.

Basis of Spending: High Capital-Goods Activity necessary for Prosperity.

The first argument—that prosperity cannot exist without great activity in the capital-goods industries—is supported by Professor Hansen, among others, who says: "It is the margin of income which is created by the capital-goods industries that fills the gap between prosperity and depression. No high level of employment and income has ever been achieved without a large outlay on plant equipment and new construction." [11] Many businessmen support a similar view. The Bulletin of the National City Bank of New York (June 1939, p. 62), for example, says: "Business analysts of all schools have agreed that the primary cause of unemployment is subnormal capital-goods activity, although the conclusions that they have drawn from the thesis have differed widely." Properly to examine the view that additional capital-goods activity must be provided for, even if it is necessary to engage in Government borrowing to do so, requires a look at the nature of savings.

In an economic sense "savings" are wealth items, actual stuff, desirable products of mankind's labor. In the financial sense, however, "savings" are claims to wealth, slices of money income, which have not been exercised for the purchase of consumption goods. In business-cycle theory economists usually use the term in the financial sense. "Investment must equal savings," is a cliché in point. In a statement before the Temporary National Economic Committee, Lauchlin Currie said, "The most commonly accepted definition of saving, as applied to the Nation as a whole, is that it is the difference between the national income and the amount spent out of that income on consumption." [12]

In the United States, income groups who have annual incomes of less than $3,000 per year accumulate in the aggregate practically

[11] Testimony in Hearings before the Temporary National Economic Committee, Part 9, p. 3498.

[12] Hearings before the Temporary National Economic Committee, Part 9, p. 3522.

no money savings.[13] Stuart Chase cites the Brookings Institution as authority for the data that of $15,000,000,000 of savings in 1929, $13,000,000,000 accrued to 10 percent of the population, and that 60,000 families at the top of the income scale saved as much money as the 25,000,000 families at the bottom.[14] People in the lower-income groups are forced to spend practically their entire incomes on consumption goods. Those with the largest incomes and savings spend only a relatively little that way. By investing the remainder they spend it for plant and equipment in periods of boom; but they hold it idle in periods of depression. Business analysts who advocate expansion of the capital-goods industries as the best path to recovery reason that, since money savers insist on spending their savings for plant and equipment or for nothing at all, the thing to do is to stimulate the capital-goods industries. If necessary they even want the Government to borrow the savings at interest and itself divert them into the capital-goods industries.

Even in 1929, the Brookings Institution reported the country's productive capacity in all lines was excessive.[15] To maintain, therefore, as one group of analysts has been doing for a whole decade—a decade in which we probably were not using over 75 percent of our already existing facilities—that the crying need was for more activity in the capital-goods field, is rather illogical on the face of it. No astronomer looking at us from Mars would agree with the contention. A priori it seems illogical that a society which already has excessive productive capacity should divert its laggard purchasing power into still more plant. A nation's income, including its money savings, must be promptly spent; that is a primary requirement. But it does not follow that idle money must move into the channel of investment. It is enough for full employment that the money move into anything, consumption goods or investment goods. And on sociological grounds it is perhaps more desirable that society should direct laggard purchasing power into consumer channels than into investment goods.

Writing to the T. N. E. C., Harris K. Randall [16] stated the situation this way: "The long-time need of increasing the national wealth by the saving of income and the investing of it in productive goods, so as to increase our national capacity for producing consumer goods * * * affects unemployment only indirectly, and is not now particularly critical; our present productive capacity is far from being fully utilized, and labor-saving invention has flourished during the depression, helping greatly to compensate for falling off in production of capital goods. The current highly critical need is for more active buying of goods and services, regardless of whether the goods are for present or future consumption. This is the unemployment problem that has plagued us for 9 years, and it has little to do with 'saving' or 'investment'."

This monograph brought out on page 15 that in a world of specialized workers it is essential in order to maintain full employment that producers keep offering their surpluses—or the money they receive for their surpluses—to the markets as rapidly as they produce their

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[13] Based on 1935–36 data. U. S. National Resources Committee. Consumer Expenditures in the United States, 1939, table 8, p. 48; chart 16, p. 54.
[14] In an article, "Saving and Spending," Survey Graphic, November 1935, vol. 24, p. 534.
[15] Ibid., p. 535.
[16] Address: 37 West Van Buren St., Chicago, Ill.

goods; also that in return for their goods or money they accept the best offer of other goods so promptly that other specialized producers are not forced into unemployment by a delay in exchange. If money is taken out of the income stream for a time, however, it is not necessary that its owners divert it into investment channels when they begin to move it again; the state would probably have a better economic machine if it could arrange to cause them to divert most of it into consumption.

What particular merit resides in diverting into investment all the money savings which people in the upper-income groups are able to acquire under our existing laws and working rules, if that investment is far larger than is technically necessary to create the products to meet current consumers demands? What fraction of the annual income do we want our economic machine to divert into new plant and equipment year after year? Ten percent? Twenty-five percent? Fifty percent? The fraction available for plant and equipment was about 22 percent in 1929,[17] and that amount is generally judged to have been excessive.

If—to throw the question into bold relief—our distribution of income were such that only 30 percent of our national income were used for consumption goods and 70 percent of the income were diverted to "savers" who actually make a practice of investing all their savings year after year, we would have a society in which men would be building an ever better physical plant to which savers would be acquiring the title. Workers would then be but drones, not living life to its full in their own time but working away at capital-goods activity, making plant ever more efficient and excessive for the benefit of unborn children who in their turn might continue to use their economic machine to the same end as their forebears. On sociological grounds it is difficult to decide how much capital-goods activity we should have, but on economic grounds it seems reasonable to believe that we should not have much more than enough to provide the plant which the money in consumer channels can cause to operate near capacity. To borrow savings only in order to provide additional productive plant and equipment, therefore, is probably a questionable solution.

Although, as we shall see, much can be said for proposals which call for a governmental diversion of laggard money savings into public works, not all the arguments advanced in justification of such action are convincing. Two arguments are especially open to question: (1) That public works must be undertaken because adequate lending opportunities do not exist outside of Government channels; and (2) that industrial growth is not possible without a continuous growth in the volume of debt. These two arguments will next be considered.

Basis of Spending: Private Investment Opportunities Functionally Inadequate.

In a statement before the Temporary National Economic Committee Lauchlin Currie said: "If it can be established what proportion of an assumed national income will be saved, * * * it is also established how large the outlets for, or offsets to, saving will have

[17] Based on M. Leven, H. G. Moulton and C. Warburton, America's Capacity to Consume, Brookings Institution, Washington, 1934, ch. VIII.

to be to attain and sustain that national income. Hence the problem of maintaining full employment is the problem of securing sufficient outlets for the saving that will accompany full employment." [18]

Some people, like George B. Johnson [19] and Alvin H. Hansen,[20] argue that enough outlets do not now exist in private fields and that therefore the Government must make new ones in the field of public construction. John Maurice Clark holds a similar view. "Oversaving would not create depression so long as the savings continued to be spent for tangible goods in ways that created employment and a corresponding distribution of incomes. The trouble would seem to be that when capital equipment reaches a certain state of surplus relative to demand for goods, further savings cease to be so spent. * * * It appears, then, that the direct source of the trouble lies in a shortage of investment rather than an excess of savings in and of itself ".[21]

An implication of the approach of these analysts is that the Government cannot feasibly act to divert savings into consumer-goods channels, so that the only choice is to divert them into capital-goods channels or have the savings go into nothing at all. This is a dubious premise. We shall see that there are recovery proposals which—not accepting the premise above—propose to solve the problem of idle savings by resorting either (1) to taxation and other means to hold down the volume of money savings of the "saving" classes to such an extent that they do not acquire more savings than current investment opportunities can continually attract, or (2) to tax pressures and other means to induce people who abstract money savings from the income stream to offer their savings to the markets on terms which will cause the funds to be borrowed. The money might have to be offered at 4, 2, or 0 percent, or even (as bonuses or subsidies to borrowers) at 2 percent, 4 percent, etc., to get promoters, enterprisers, building contractors, and consumers to borrow the funds. Whatever the interest rate or clearance price would have to be, there is some price which would clear the market; and advocates of tax pressures on idle money advocate increasing the pressure until that price is reached. They hope to force money savings into both consumer-goods loans and capital-goods loans at such low yields that consumption as a whole will be stimulated. If laws could be designed which would cause money automatically to seek borrowers at low, zero, or negative yields, there would be outlets enough in housing construction and other private activity without governmental borrowing and investing in public outlets.

Even on the face of it the view that communities must provide new activities in order fully to use existing plant facilities cannot be basically sound. An economic system should be designed to operate full-blast in meeting existing wants, whatever they happen to be. It should not require for continuous full operation that new industries like the automobile, airplane, and television industries be continually introduced. If we were to read of a distant land which could not satisfy its current wants or completely feed itself because new wants were not being innovated rapidly enough, we should prob-

[18] Hearings before the Temporary National Economic Committee, Part 9, p. 3523.
[19] Address: Port Hope, Mich.
[20] Testimony in Hearings Before the Temporary National Economic Committee, Part 9, pp. 3546, 3547.
[21] Economics of Planning Public Works (a study made for the National Planning Board), U. S. Government Printing Office, Washington, 1935, p. 47.

ably regard the situation as fantastic. No doubt we should also regard the suggestion that the Government provide new fields of investment as not being a basic cure.

Basis of Spending: Continuous Growth of Debt Necessary for Industrial Expansion.

Another argument for Government borrowing and spending—that industrial growth is not possible without a continuous growth in the volume of debt—is also open to question. In a recent book seven Harvard and Tufts economists who advocate Government spending wrote, "If we look at the whole Nation as a going concern, we see that its internal debts, business and governmental, are merely another aspect of its assets. Debt in the broad sense is the obverse of investment. This fact, taken for granted in business accounting, is entirely ignored in our present method of Federal budgeting. An expanding economy not only can, but must, continually increase the total volume of debt outstanding."[22] Stuart Chase supported the same view when he wrote, "There cannot be a system to be called capitalism without a huge and growing debt structure."[23] Similarly, Secretary of Agriculture Henry A. Wallace said, "* * * increased prosperity is definitely dependent on increased debt either public or private."[24] All three of these writers justify an increased governmental incurrence of debt as necessary for increased prosperity inasmuch as private debt has, for a decade, ceased to increase.

A capitalist economy, so long as it uses certificates of indebtedness for money, cannot function without a continuous flow of credit originating in either private or public debt operations. That is true, but once enough debt has been created, both to serve as a medium of exchange and to facilitate slow-moving transactions, a nation has enough debt. Vast amounts of long-term debt such as mortgages and bonds, which, fortified with reserves of equities, are mainly adapted to exempt certain investors from the major hazards of taking part in specialized production, are hardly necessary to a full operation of the economic machine. Money savers conceivably might be induced or taxed into investing on a share-capital rather than on a fixed-capital basis. Moreover, a growth in public debt is not a prerequisite to an expanding program of public works. England has been able to finance both a public works and an armament program primarily by expanding taxation instead of debt.

Permission by the State to use the bond and mortgage instrument as a business tool seems to have stimulated a fallacious belief. Economists on the whole are agreed that income which is not spent for consumers' goods must be disbursed for producers' goods as rapidly as it is received or the difference will be represented by unemployment. Economists recognize that, in general, money savings not spent for consumers' goods must be exchanged for titles to capital goods. However, even though they all realize that if, say, $10,000,000,000 is annually saved and invested in the form of stocks, the money so disbursed need never be returned to the stockholders, some of them believe that if the saved $10,000,000,000 is invested in the form of bonds, the money must some day—to insure permanent solvency—be

[22] An Economic Program for American Democracy, Vanguard Press, New York, 1938, p. 63.
[23] "Behind the Budget," Atlantic Monthly, September 1939, p. 316.
[24] Speech entitled "New Freedoms, Responsibilities, and Disciplines," at Philadelphia dinner, December 17, 1937 (Department of Agriculture Release 973–38, p. 8).

"repaid" to the bondholders. Although society makes no arrangement for its stockholders to get their money back, it permits its bondholders to stipulate that their money shall be paid back after 10, 20, 50, or any number of years. But in practice investment debt is seldom repaid in the sense that the debt is wiped off the corporate books. When old debts are retired, new ones usually are incurred; new creditors simply relieve old ones. Regarding the indestructibility of debt on a large scale, S. M. Eccles, Chairman of the Federal Reserve Board, recently said:

In connection with the question of debt, you (Senator Byrd) also make the curious statement that some day the whole amount must be repaid. Such a statement reflects a misunderstanding of the fundamental nature of our capitalistic economy. Debts and obligations of various kinds are but the other side of investment, and if we ever tried to liquidate the whole amount or even any substantial fraction, we would precipitate a crisis so severe that general economic paralysis would result.[25]

It does not follow from Eccles' statement, however, that just because debt in the aggregate cannot be retired, industrial growth cannot occur without additional debt. We shall shortly review plans which propose to get money savings adequately into use without resorting to the questionable tactic of incurring additional debt. H. F. Stoke,[26] writing to the Temporary National Economic Committee, criticized as follows the arguments for increasing debt:

Nominally we operate under the capitalist system; actually we are dominated by a credit (debt) system. So closely are the two intertwined that economists unquestioningly accept the credit system as an essential part of the capitalist system. They are in error. The credit system is in reality a parasite existing within the capitalistic system. By its very nature it is devouring its host. So far has the process advanced that it has become the paramount business in the Nation. * * * Estimates furnished by informed authorities place the sum invested in the credit business (debt) at from $175,000,000,000 to $275,000,000,000. Assuming the mean of $225,000,000,000 to be correct, we have a debt investment of approximately twice the sum of the capital stock of all American corporations. * * * The annual income of the credit business, including brokerage, legal charges, fees, and other incidental charges borne by the borrower, cannot amount to less than $12,000,000,000.[27] * * * The same capital, directly invested and sharing alike the hazards and rewards of enterprise, would represent pure capitalism at its best.

Stoke then criticizes the effort to cure what he regards as the evils of credit with more credit, and argues that public credit is being thrown into the breach to assist exhausted borrowers with their interest payments. He maintains that private debt is thus being converted into public debt with the result that taxes are becoming forced interest payments, and debt-free individuals and corporations are being made to pay tribute to the creditors through taxation. Thus although much can be said for Government spending, as we shall see, several arguments supporting it are open to criticism.

Basis of Spending: Money Savings Must Be Converted Into Physical Savings.

Also open to criticism is that argument for compensatory spending which postulates that if economic equilibrium is to prevail, money savings must be converted into physical savings, and that, since savings are not currently being converted by their owners into private

[25] Quoted by Rudolph L. Weissman in the New York Times, Apr. 30, 1939, IV, p. 10, column 6.
[26] Address, 1420 Watts Ave., Roanoke, Va.
[27] Data given below suggest that it is less than this. (Author's note.)

works, they should be borrowed and converted by the Government into public works. John E. Exter, of Cambridge, Mass., voices this view when he writes: "We must * * * permit the Government to use them (money savings) in a long-range program of investment whenever private investment is insufficient. * * * If we persist in increasing our savings, we must therefore increase our investment in order to avoid serious deflation. And we cannot depend on the unpredictable fluctuations of business confidence for the absorption of the idle deposits which our relatively fixed savings habits tend to accumulate."[28] As is evident, this is essentially the Keynesian view that "investment must equal savings."

Charles Meinshausen[29] has a plan which implements the above view. He would collect all laggard money savings at a central Federal savings bank which would issue bonds in return for them. This bank would then be responsible for investing the funds in worth-while public-works activity (which he believes could be made largely self-liquidating), and in limited production of consumers' goods. Meinshausen would set up an "economic congress" of elected representatives to control the investment institution. Essentially his plan is a tremendous P. W. A.–W. P. A. type of arrangement.

The questionable premise in the above view is that, as a prerequisite for economic balance, money savings must be converted into physical savings. We shall see that there are other types of plans which premise that it is enough that money savings move back into a demand for goods and services. These other plans deem it incidental whether the savings move into investment or into gifts, consumers' goods, or subsidies. They argue that the primary requirment is that "disbursements must equal savings," not that "investment must equal savings." We shall see that recovery proposals whose primary concern is to get savings back into *any* existing channel of demand, would tend to expand the scope of private enterprise at the same time that it tends to reduce the fraction of the national income flowing to capital return, whereas those whose primary concern is to insure that savings flow into "investment," almost invariably call for greater governmental activity and a continuous payment of interest to those "savers" who shun all outlets other than Government loans.

Not only is the premise that "investment must equal savings" open to criticism on the ground that there is no reason to assume that money once abstracted from the income stream as savings must necessarily move back into investment goods when it does return; the premise also has stimulated two pieces of theoretical confusion. In the first place it has led to a quibble among economists over whether private savings are ever uninvested; in the second place it has helped to divert attention from the vital question of the rate of use of money.

"*Money is always invested.*"—Frequently when discussion focuses on the idleness or sluggish use of bank money as a possible cause of economic unbalance, the issue is parried with the answer that "money is always invested," the implication being that that is answer enough. Technically speaking, money is necessarily always "invested," assuming that it is not hoarded in cash. That is true, but its rate of use—quite another matter—may vary nonetheless.

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[28] Communication to the New York Times, July 4, 1939, p. 12, column 5.
[29] Address, 11 West Forty-second Street, New York.

Bankers always regard their cash and similar lodgments as being "invested" in their earning assets. The basic question is not, "Are money savings technically invested?" or "Are investments equal to money savings?" Rather it is, "Are society's institutions set up to give its specialized producers strong enough incentives to exchange their products with one another at a pace which keeps them all busy, or are its institutional arrangements and privileges set up to enable some of its producing members to withdraw from the markets with impunity, with the result that exchange and production decline?"

Businessmen borrow and spend. Governments also borrow and spend. Both inject money into the channels of business. Both pay interest on their borrowings, and both thus are conscious of a carrying charge on their money: the sooner they use it and retire their loans, with either sales revenues or tax revenues, the less the carrying charges. Both therefore disburse their borrowings rapidly. Business and government employees, who are the main recipients of the initial disbursements, also tend to re-spend their money promptly. After a few circuits through the markets, however, some of the disbursements come into the hands of the "saving classes" who wish to lengthen the interval between transactions and, because the money they receive is not a depreciating asset, are in a position to do so. When they thus lengthen the interval they give to money a lower rate of use than do the business and governmental agencies which were instrumental in creating it. But by reducing the rate of use of money (which, incidentally, may always be technically "invested") they initiate a deflationary process. The properties of money which permit of such reduced rates of use and deflationary behavior seem, however, to be outside the orbit of concern of those whose primary aim is to make investment equal savings.

Even when the view that "investment must equal savings" is broadly interpreted to mean that, for business recovery, money savings must be promptly disbursed for investment goods, the approach is too narrow. For when the tempo of activity is low, the volume of annual savings is necessarily small, and it is not enough at such times to insure that *annual* money savings be disbursed. During 1932 and 1933, for example, when production was low and money savings were small, depression would have continued even if capital investment had equaled savings. A broader attack is needed. During depression periods, what is necessary is the removal of spending restraints and the provision of spending incentives which together bring on full exchange among specialized producers. Because of its limitedness and indefiniteness, therefore, the argument that investment must equal money savings and that governments must borrow and spend to insure that relationship, offers little justification for a policy of compensatory spending, even though that policy may be desirable on other grounds.

Basis of Spending: Public Works Are Desirable for Their Own Sake.

More can be said for the argument, as made in a proposal by John Bauer and Irving B. Altman,[30] that during periods of depression the

[30] Program of the Commonwealth Federation to Eliminate Unemployment and to Establish a Stable Economy of Abundance, Apr. 6, 1939, submitted to the Temporary National Economic Committe by the Commonwealth Federation of New York, 315 Fourth Avenue, New York.

Government should borrow idle savings and spend them for public works because such works are useful and desirable for their own sake. Soil conservation, reforestation, and flood control, together with the construction of waterworks, bridges, sewage-disposal plants, hospitals, express highways, and city by-passes, are all socially desirable activities. Most of them pay social dividends which outweigh their costs. Although not all of them render a type of service which can feasibly be charged for on an a la carte basis (as is, for example, the postal service), all of them are of a type which can be paid for through municipal, State, or Federal taxes if fee charges are unfeasible.

Insofar as it is possible for governments to go into business in lines in which private industry cannot feasibly operate, or in which the Government itself has been needlessly inactive, the recourse to public works is commendable. There may still be many projects similar to the Triborough, Whitestone, and Spuyten Duyvil Bridge projects of New York City, for example, which, worth while and self-liquidating, provide valid investment opportunity. So long as the Government acts only as a trustee investing private funds in self-liquidating public works, governmental enterprise is unquestionably laudable. The 7-year $3,860,000,000 program proposed to Congress by President Roosevelt in June 1939 [31] was essentially such a program. Large as that sum appears to be, however, it was much too small to use to the full the country's productive facilities. The annual activity which would be brought forth by a 7-year $3,860,000,000 program could not begin to counterbalance the laggard use of money which prevails today. Moreover, one suspects that even potentially there are not enough self-liquidating public works to provide an adequate counterbalance. For, if the Government were to borrow all laggard money savings and supervise their movement into investment, it appears doubtful that the projects into which the money would be poured could be liquidated in due course through either fees or taxes.

There are, however, sponsors of government-investment plans who do not advance "self-liquidation" as a guiding criterion. Stuart Chase, for example, writes: "*What we need, then, is not pump priming, but a two-cylinder pump.* One cylinder is private investment; let it work for all it is worth. But beside it must stand another cylinder representing public investment. * * * The theory that the function of Government spending is to prime the one-lunger pump of private investment has not worked. I do not believe it will ever work. The time is overdue for a permanent new cylinder on the investment pump." [32] And referring to Keynes' compensatory-spending thesis, Chase says: "The theory centers around the devastating effects of idle capital. Someone must invest this capital when unemployment is severe, or the whole economy is in danger of collapsing. If private citizens won't or can't spend or invest, the Government must. This seems to be virtually a law of survival for interdependent, power-age communities. The New Deal has followed this thesis only in a left-handed, half-hearted manner." [33] Chase then argues that, when private debt is not expanding, a growing public debt is necessary for industrial growth, and proceeds with recommendations for supporting Government investment with Government deficits.

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[31] Congressional Record, vol. 84, pt. 7, p. 7846.
[32] "Behind the Budget," Atlantic Monthly, September 1939, p. 324.
[33] Ibid., p. 313.

Mr. Chase is probably correct in his view that the New Deal, from the standpoint of monetary balance, has resorted to the public-investment pump to only a mild degree. During the years 1937, 1938, and 1939, for example, public expenditures for new durable goods totaled only about $2,790,000,000, $3,360,000,000, and $3,830,000,000, respectively.[34] Had the Government, however, tried to borrow and spend enough money to raise business activity to levels at which all "employable" workers would have been employed, new kinds of difficulties, besides the debt problem, would have arisen. For deficit financing has varying characteristics depending upon the limits to which it is carried.

Limits Beyond Which Deficit Financing Leads to Authoritarian Price Control or Inflation.

Usually even conservative citizens favor carrying deficit financing far enough during depression to provide for relief. Humanitarian motives make them go so far. Then there are those who realize, when they see millions of unemployed workers roaming the streets, that, in the aggregate, society's laws—tax, land, monetary, corporate, and property laws—must be seriously defective, so defective in fact that to protect existing arrangements against reckless legislative action it may be advisable to provide a modicum of work through deficit financing while those in control either wait for the situation to blow over or struggle with the problem of drafting better laws. In addition there are those who, as we have seen, want the Government to spend sums sufficient to balance what private savers elect not to spend. To go as far as that, however, introduces a difficult problem. For deficit financing, when carried beyond certain limits, seems to lead either to authoritarian price control or to a runaway price level.

To make clear where that limit lies, it is in point to bring out that under conditions where factories operate only part time and millions of workers are available at "customary" rather than "competitive" wages, producers, if supplied with additional orders, are willing to turn out additional quantities of goods without raising their selling prices. Under such circumstances, governmental injection of new buying power does not for some time cause wage rates, costs, or the price level to rise; yet it brings about increased business volume. The problem of runaway prices, price inflation, or centralized price control, thus does not arise when deficit financing is carried on so lightly that millions of unemployed workers still remain in the labor market and relieve producers of the necessity of paying competitive wages.

It is when efforts are made to bring all productive facilities and the entire labor supply fully into use by government spending that the action ends not only in increased employment but also in upward-spiraling prices. For as soon as orders begin to put pressure on productive facilities and to tax a country's labor supply, producers are forced to pay competitive wage rates and, after taking up some slack, to lift their prices in step with wages. When competition for labor prevails and new monetary demand continues to come forth nonetheless, it becomes easier for producers to gather in customers' dollars by

[34] George Terborgh, "Durable Goods Expenditures in 1939," Federal Reserve Bulletin, February 1940, p. 116.

raising prices than by giving more goods for the money. As a result, the new monetary demand becomes insufficient to take up all the slack of unemployment which the Government spending was intended to absorb. During the first World War, for example, when competitive wages prevailed and yet the Government continued to make large injections of new purchasing power, the price level ran away as soon as the added buying power began both to use existing facilities to the full and to raise business costs. It is when new injections of buying power have the effects indicated above and governments are committed to supporting purchasing power with public funds even though rising prices discourage or make inadequate the current effective buying power, that governments are forced to choose between (1) ever more deficit spending to support business activity (at prices which entrenched business, labor, and monetary groups may be in a position to command) and (2) dictatorial efforts to hold down prices by Government regulation.

In other words, compensatory spending, when on a scale intended to absorb all of the "employables," tends to lift prices. And such an effect—after inventories are built up—tends in its turn to discourage demand. (That is, it tends to encourage money holders to take advantage of their privilege of retiring into non-depreciating money.) Then declining demand causes private activity to bog down unless compensatory spending steps in with additional outlays of money. Thus there tends to come a time, after a big injection of Government spending has been made, when demand declines again unless increasing injections of Government funds are made. It is because compensatory-spending proposals are committed to engage in a balancing amount of governmental activity whenever private activity bogs down for any reason whatsoever, that the program is faced with the dilemma of either disbursing increasing sums of money indefinitely as prices rise, or of governmentally controlling prices.

During both the Civil War and the first World War the United States let prices rise and maintained full activity by disbursing ever larger sums of money at ever higher price levels.[35] In contrast to this procedure, Germany, since 1934, has held down its prices authoritatively while maintaining full activity by disbursing borrowed money. Governmental attempts to bring productive resources *fully* into use by monetizing Government credit must necessarily end in either price inflation or Government price fixing, because there is nothing in such a policy to induce specialized producers to continue their function of exchange regardless of whether prevailing prices are "competitive" or "administered," high or low.

Interest Burden of a Heavy Compensatory-Spending Program.

Perhaps the major reason, however, for believing that Government borrowing and spending is a makeshift recovery proposal is that it requires, as part of its mechanism for keeping money moving,

[35] It may be of interest to note that deficit spending in the United States from 1933 to 1939 was never on a scale large enough to bring the price level back even to the oft-mentioned "1926 price level." Only in the spring of 1937, when the power of the Federal Reserve Board to change reserve requirements was being invoked to halt advancing prices, did deficit spending proceed on a scale large enough to lift prices appreciably.

the continuous payment of interest[36] to savers who otherwise will not utilize their funds. A more permanent and balanced recovery proposal would seem to be one wherein everyone personally disbursed his own savings into the markets as rapidly as he collected them, and one wherein society's working rules brought it about that all savers together did not accumulate more than they either were willing to return to the markets or could be made to return without being baited with Government interest payments.

Nor would continuous growth in the size of the interest burden be a matter of small consequence. In answer to the criticism that expanding public debt imposes on the community a weight of interest charges which must eventually become intolerable, "Seven Harvard and Tufts Economists" argue that "It is ridiculous to maintain that debt in general must be repaid,"[37] and write:

> The payment of interest on the public debt does not in itself constitute a deduction from the Nation's income. What the Government raises in taxes to meet debt charges it pays out again in interest to the holders of its bonds. The extent to which a burden is involved depends on who holds the bonds. This point is of importance in considering the extent to which the debt will impose a burden on future generations. The same generation that pays the taxes inevitably receives the interest payments. It is thus up to each generation to determine by the way it apportions its taxes how much of a real burden interest payments on the public debt shall be.[38]

True, Government borrowing will cease to generate an interest burden if and when generations arise which can and will impose tax laws that recapture for the public coffers the very interest payments handed out by the Government in order to keep money moving. But so long as this generation which obtains its revenues for interest payments from all of its income groups does not itself impose such taxes, its legacy to future generations is either an increased interest burden or a tax problem which it deems to be too knotty for itself to solve.

SUMMARY: APPRAISAL OF COMPENSATORY SPENDING—ITS JUSTIFICATION AND LIMITATIONS

Even if taxes were set up which thus recovered interest disbursements, a balanced situation would not necessarily prevail. Costless money would be provided for useful public works, true, and rewards would no longer be diverted to savers as at present for permitting the Government to keep their money in circulation; but savers would still be able to hold intact the principal of the money savings made during years or decades when they refused to spend.

Compensatory-spending programs aiming at full employment (as pointed out above) also would have to face the difficult problems involved in administratively holding down prices, and in keeping them "fair" while holding them down.

Perhaps the best justification for compensatory spending is the sociological one that it affords a simple and direct method of providing subsistence to millions of people who are unemployed against

[36] Government interest payments to savers for the use of otherwise idle money actually are more in the nature of rewards for "not-hoarding" than of inducements for saving. Because claim checks to society's goods are neither depreciated nor canceled, and because society's savers predominantly belong to those income classes which have no pressing needs for goods and services, society can get savers to use their claim checks only by baiting them with interest payments.

[37] An Economic Program for American Democracy, p. 65.

[38] Ibid., p. 68.

their will because society's leaders either will not or cannot repair the defective laws and rules which make for unemployment. Because the laws and institutions do not insure reasonably full employment, and because every additional day that the unemployed remain idle means an irretrievable loss to the Nation in wealth not produced, it seems that considerable compensatory spending is justified. For every year that our millions of men remain unemployed and our billions of savings move sluggishly the cost to the Nation in uncreated wealth runs into such high figures that our annual deficits seem trivial. It is most important to bear in mind that it is not unsound economy to put idle men to work creating wealth. "Injustice" between classes may be engendered by doing so, but from the over-all viewpoint more wealth is produced. It is the loss of wealth that chronic idleness engenders which perhaps justifies compensatory spending up to the point where, to be effective, it calls forth the installation of new political and economic machinery which, to achieve compliance with its program, must exclude civil liberties from its world. If not carried too far, compensatory spending is a method of buying time in which to think, and of staving off revolution, although, of course, compensatory spending itself becomes revolutionary when undertaken on a scale—as in Germany—such that the state is driven into using military methods to control prices—life values—in efforts to keep from shoveling out larger increments of money at ever higher prices.

Inadequate as it is in theory, and dangerous as it is to resort to, compensatory spending must nonetheless, when all the criticism is in, be appraised as perhaps the only recourse as yet politically acceptable which in a large measure is able to counterbalance the withdrawal of money from the markets. The writer believes that there are other recovery plans, to be discussed later, which are simpler, sounder, more effective, and altogether more desirable; but they seem a long way off politically. Government borrowing and spending, therefore, becomes at least a reed to lean upon until better supports are acceptable.

GOVERNMENT SPENDING FINANCED BY TAXATION

Some of those who would have Government spending counter-balance private inactivity recommend that the Government obtain its funds from money savers by taxation rather than by borrowing. "Seven Harvard and Tufts Economists,"[39] and also Hansen,[40] Bauer, and Altman,[41] Chase,[42] and several others, regard such action, as well as Government borrowing, as a fruitful approach. Obviously, the financing of Government spending through taxation sidesteps several of the knotty issues which are raised by resort to ever-expanding public debt and interest payments.

Financing Government spending (if it must be engaged in) through taxation rather than through borrowing has much to commend it. Inasmuch as money savings must go back into circulation as rapidly as they are extracted from the income stream if added

[39] An Economic Program for American Democracy, pp. 53–56.
[40] Hearings before the Temporary National Economic Committee, part 9, pp. 3354, 3854.
[41] Proposal submitted to the Temporary National Economic Committee. (See p. 36 above.)
[42] "Behind the Budget," Atlantic Monthly, September 1939, pp. 324–326.

unemployment is not to result, and inasmuch as society's current laws enable our upper-income groups to extract more money savings than they continually deem it wise to use as rapidly as they receive them, it might be wise for society to enact laws which operate to re-channel the flow of income more to those groups who spontaneously keep money savings in motion when they do get hold of them. It may be, however, that society has not the wisdom to draft laws which bring about a more balanced distribution of income as an automatic outgrowth of normal haggling in the markets. If so, it might be well for it to provide through the cruder tool of corrective taxation a distribution which permits less savings to be made by those who customarily hoard when they do not spend largely for producers' goods, and more by those who both hoard little and are as disposed to divert their funds into durable consumers' goods—such as houses and automobiles—as into producers' goods.

Also if, as Professor Joseph A. Schumpeter and others maintain, it takes time for the discovery and development of new techniques, new resources, new industries, and the growth of population, if such developments do not follow an even course but have their violent ups-and-downs, and if investment of funds in private producers' goods must always wait until new developments set the stage for renewed prosperity, then money savings should either be shunted into consumption channels throughout the preparatory period, or be diverted into public works through taxation.

Arthur Dunn proposes to tax away profits not needed for consumers' goods, capital goods or reserve (i. e., the approximate equivalent of savings that would otherwise be hoarded), and proposes to use these funds either for worthwhile public works or as subsidies to help correct disparities in consumers' buying power.[43]

Much has already been done in England in the direction of cutting down the total volume of money savings through taxation. In a statement to the Temporary National Economic Committee, Leon Henderson said:

> The English have, I expect, a little better estimate of what the savings in relation to national income is than our own. They show that around 1907 they were saving maybe 12 percent of their national income; in 1924 that had dropped to 8.1; in 1929 it was 7.2; in 1935 it was 6.9 percent. The significance lies in the fact that since 1924, and since 1929, the amount of savings which the English system was making was considerably less than our own [which was running at the rate of about 20 percent per year] and was considerably less than had been the situation in earlier times, and yet England, we know, has had a kind of recovery that we have not experienced. * * *[44]

(During the second half of 1937, before England's intense rearmament race was begun, the index of industrial production for the United Kingdom—with 1923–25 as a base—averaged 130, as against 103 for the United States, according to data published by the United States Bureau of Agricultural Economics).[45] Heavy English income taxes simply operated to divert excess savings, via public channels, into slum clearance, housing subsidies, unemployment insurance,

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[43] Thirty Million Jobs (2d ed.), a booklet published by Arthur Freeman, New York, 1938, pp. 28 ff., 35, 46, 47.
[44] Hearings before the Temporary National Economic Committee, Part 1. Economic Prologue, p. 177.
[45] Bureau of Agricultural Economics, Demand, Credit, and Prices Outlook Chart Book, Washington, 1940, p. 19.

medical care, old-age pensions, and the support of consumption in general.[46]

EFFECT ON INTEREST RATES AND UTILIZATION OF PRIVATE FUNDS

Obtaining Government funds almost exclusively through taxation of the type above described, rather than through borrowing, would have a slightly stimulating effect on business because Government bonds would no longer provide an investment outlet for timid money, and interest rates would go lower. Since 1932 the United States Government has borrowed over $20 billion at the rate of about $3 billion per year. Its stream of new issues has provided an investment outlet the absence of which would have put added pressure on investment funds and would have resulted in reducing interest rates even lower than they have been since 1932. Even though such a repercussion might not have stimulated appreciably the producers' goods industries, it would have stimulated private borrowing for such purposes as housing construction and would have led to greater activity in that field.

Cutting off the stream of new Government issues to serve as investment outlets for timid capital—through substitution of taxation for borrowing—would be particularly effective today in inducing money savers to take bigger risks in private industry. Because we impose very high tax rates on big incomes on the one hand, and simultaneously provide tax exemptions on incomes derived from certain kinds of securities on the other, money savers today refuse to invest in private industry unless the likely gains are large. John T. Flynn has pointed out how an investor who earns 10 percent on a new investment can retain, because of our current high income-tax rates, only about 3 percent of it for himself if his income in addition to that on the new investment is $100,000 or more per year.[47] And no one will take risks at 3 percent when he can get approximately that percent with less effort and greater safety by simply buying tax exempt securities. Shutting off the stream of new Government obligations by relying on taxation instead of Government borrowing, would thus undoubtedly put pressure on savers to invest in ventures which promise smaller returns. More outlets in private industry would thereby be made to seem attractive.

Limitation of the Plan to Tax Current Savings.

One can, perhaps, raise no major criticism against using taxation rather than borrowing as the preferred means of financing a compensatory-spending program. But one cannot regard the proposal to tax annual money savings away from their owners when such savings are not being adequately used, as an integrated recovery proposal, for the following reason.[48]

Even if it were administratively feasible by means of taxation to collect money savings to the degree indicated, the plan could insure only that the industrial situation would not get worse: it could not

[46] Cf., A. H. Hansen testimony, hearings before the Temporary National Economic Committee, pt. 9, pp. 3554–3558.
[47] "Scared Dollars," Collier's, Mar. 11, 1939, p. 72.
[48] The plan to tax all money savings away from their owners unless these owners prove that they themselves have disbursed them within the year is, as we shall see later, a different type of proposal.

insure that it would get better. If perfectly administered, it could prevent the annual income generated during any one year from having a decreased rate of use; but it could not operate to make previously distributed income move more rapidly, and, if depression were already at hand, that would have to be done. Stated differently, a tax only on current savings would not operate to make the money savings of past years—the vast sums of relatively idle money which reflect themselves in millions of unemployed men—move more rapidly. It is desirable to insure that at least annual new money savings move into circulation as rapidly as they are acquired; it is also preferable, if the Government is to disburse the annual savings which private savers themselves are reluctant to spend, that this be done by resorting to taxation rather than to borrowing. But in times of depression, when the total volume of idle money far exceeds the volume of current savings, that is not enough. At such times the money savings of past years, too, must be made to move.

Federal efforts to divert income via taxation from those particular savers who will not re-spend tends to direct money into channels where it will be used more actively. But the approach is quite limited in what it can accomplish. Moreover, it is tedious and expensive, so much so that it is doubtful whether the Government can ever hope by income-tax action alone to bring about even an uninterrupted flow of current savings into current disbursements.

THE "TOWNSEND PLAN"

Perhaps the most ambitious of all reemployment plans advanced for diverting income from one income group to another by means of taxation, is the "Townsend plan." Backed as it is by the emotional and voting support of millions of elderly people, it is a plan which has obtained the approval of many Congressmen from all sections of the country. As drawn up, however, its machinery would not divert money savings from income groups who tend to hold them idle, but primarily from income groups who themselves tend to spend more than they earn.

The Townsend plan has the following major features: (1) A pension of $200 per month is proposed for all citizens 60 years old or over who are not habitual criminals, (2) on condition that they take an oath to spend the entire sum for goods and services within the United States during the month in which it is received, and (3) provided they refrain from all remunerative employment. (4) Persons with independent incomes of more than $2,400 per year are not eligible for the pension. (5) A tax on all transactions would be levied to raise the necessary revenue; a 2 percent tax would also be placed on all inheritances and gifts in excess of $500, and a 0.1 percent increase in all income taxes would be made.

There were 10,385,000 persons in the United States 60 years old and over in 1930. It is estimated that there are over 13,000,000 such persons in the United States in 1940.[49] Allowing for those elderly people who are either aliens or have incomes over $2,400

[49] Estimates of the National Resources Committee, Population Statistics National Data, October 1937, p. 9, table 1.

per year, there are about 10,000,000 people who would be cared for under the plan. Over 4,000,000 persons over 60 years of age held jobs in 1930, so that it is reasonable to suppose that at the present time well over 4,000,000 jobs would be released to younger people by retirement of elderly people under the plan.

With the cost of administering the pensions estimated at 10 percent, and the cost of collecting the taxes placed at 2 percent, it has been estimated that $28,000,000,000 would be needed annually to provide for the pensions.[50] This is equivalent to about two-fifths of the national income for 1939. It is very doubtful that such a large portion of the national income could, in a democratic society, ever be collected through taxation.

The arrangement which, under the Townsend plan, aims to assure complete expenditure of each monthly pension by the pensioner within the month, is also probably unfeasible. After all, what is a bona fide "expenditure"? Suppose a pensioned grandfather gives his grandson $20 for shining his shoes, and the grandson puts the $20 in his bank for his future education, is that money expended? And how would administrators prevent the relatively well-to-do elderly people from giving funds to relatives in distress? As one critic put it: What is to prevent pensioners from "losing" their money in places where their younger relatives can conveniently find it?

The transaction tax on which the Townsend plan would largely rely is a compounded sales tax. A retail sales tax hits a finished commodity only once, when it passes into the hands of the consumer; but the transaction tax peppers it with a levy at every stage of its progress from raw material to finished product. Because this tax would bear most heavily on products manufactured in separate stages in many plants, multiple-process (vertically integrated) concerns would tend to supplant the smaller single-process ones. This would increase the concentration of economic power.

Deflationary rather than stimulating effects would follow from the adoption of the Townsend plan. In the first place, the incidence of the transaction tax would be primarily on consumers, and since poor people play relatively larger roles as consumers than do the well-to-do (the bulk of the country's buying being done by persons with annual incomes of less than $2,000), the transaction tax would bear more heavily on the poor than on the rich. The Tax Policy League points out that the 3 percent sales tax of Michigan, for example, takes approximately $18 per $1,000 of income from the scrubwoman but only 30 cents per $1,000 from the multimillionaire.[51] Because the Townsend transaction tax would bear more on the poor than on the rich, money would be extracted from spontaneous spenders and diverted to elderly people who (especially in the case of elderly couples receiving $400 per month) would probably, after an initial splurge of spending for clothes and furniture, be at a loss as to how to spend the money on themselves.

On a second score the Townsend plan would likewise be deflationary. The plan does not propose to dispense pensions for 5 months after its adoption, whereas it proposes to begin collecting taxes during the second month after adoption. For several months

[50] "The Townsend Plan Analyzed," Tax Policy League, New York, March 1936, p. 16.
[51] Where the Sales Tax Falls (a bulletin) New York, March 1934.

therefore, income equal to two-fifths of the national monthly income would be extracted from the mass of consumers and in effect hoarded until the 5-month period was up and the disbursing of funds was begun. Such a collapse in current purchasing power would at least temporarily cause wholesale unemployment, falling prices, and widespread bankruptcy.

Moreover, as the Tax Policy League says, a forcible jacking up of the standard of living for the older part of the population (in large part against their natural inclinations) by forcing down the standards for the rest seems a distorted way of attempting to achieve prosperity.

"If the Townsend plan were economically sound it would seem much more socially desirable to spread the benefits over the entire population and give $20 monthly to everyone of the 93,000,000 persons now receiving less than $1,000 per year." [52]

There seems to be no arrangement in the whole Townsend plan to induce increased spending for any purpose whatever among those wealthier people who today are laggardly spending their money. In summary, it seems likely that the Townsend plan would give luxuries to about 10 percent of the population by depriving almost 90 percent of necessities, that it would probably be administratively unfeasible, that it would at least temporarily collapse the price level and probably have continued deflationary effects, and that it would make for severe unemployment during the initial period when money was being collected but not disbursed.

THE "HAM AND EGGS PLAN"

Several variants of the Townsend plan have appeared in recent years. Among them are the "Oregon Citizens' retirement annuity plan," the "Arkansas plan," and the "California pension plan." All of the above are "pension plans," although none of them proposes to give as large sums to the aged as the $2,400 suggested by Mr. Townsend.

The "ham and eggs plan" first proposed to disburse $25 every Monday to all citizens in California over 50 years of age who had resided in the State for at least 1 year prior to the adoption of the amendment (or for 5 years thereafter). This was later changed to $30 every Thursday. To those eligible, pensions would be paid in the form of State warrants. Then, instead of relying on the recipient's oath that he would keep his pension money in circulation, the ham and eggs plan would require a 2-cent stamp to be affixed weekly to each $1 warrant in order to insure its circulation. The stamps would have to be purchased from the State for cash. After 52 weeks, every $1 warrant would be redeemable for $1 in cash at a specially created State bank. Provision is also made for incorporation into the plan of California's sales tax and use tax.

The proposal has unusual features which would give the administrator of the plan practically dictatorial powers. The administrator would control the appointment of the directors of the contemplated State bank, a bank which would be the sole permissible depositary

[52] The Townsend Plan Analyzed, p. 18.

for all State, county, city, and district funds; he would in addition have other tremendous appointive powers, and his actions would not even be subject to judicial, executive, or legislative review or control.

Aside from the nefarious political implications of the plan, the economic aspects of it would be deflationary. It has been estimated that in the first year of its operations the plan probably would call for the issuance of warrants in the amount of $1,248,000,000 and that this in turn would involve the collection of about $1,300,000,000 in cash through redemption stamps.[53] Obviously, the plan contemplates collecting in taxes from the general public larger sums than it contemplates disbursing to a favored age group.[54] However, inasmuch as—to start operations—the plan would inject large quantities of purchasing power immediately, and the direct deflationary effects of the tax would not have a chance for almost a year to neutralize the stimulating effects of the initial injections, a temporary fillip would probably be given to business activity which would be analogous to the one provided in 1936 when "soldiers' bonus" payments were dispensed. Even this temporary fillip would result, however, only if the public fear of large localized injections of State warrants did not cause a wholesale disruption of trade, rapid liquidation of assets, and a flight of capital to other States.

In brief, the ham and eggs plan, like the Townsend plan, would generate deflationary effects by extracting funds from the big majority of spending consumers in order to benefit a designated age group, and would do nothing about stimulating the flow of those particular laggard funds which today are probably mainly responsible for our widespread unemployment.

GOVERNMENT SPENDING FINANCED BY CREATION OF "COSTLESS MONEY"

We have now examined two broad classes of compensatory-spending plans for governmentally injecting money into the purchasing-power stream when holders of existing money elect to use it too slowly. One type would finance its injections by borrowing; the other by taxing. There is still a third class. Its proponents would have the Government obtain its funds by issuing "costless money."

Since the depression began in 1929 the United States Government has not resorted to this third method of financing. A move was made in that direction in 1933 when the Thomas amendment to the Agricultural Adjustment Act empowered the President to purchase and retire up to $3,000,000,000 of Government obligations with non-interest-bearing notes;[55] but the power was never used. The idea, however, is still current and still before Congress. In its recommendation of April 8, 1939 (above mentioned), to the chairmen of the Committees on Banking and Currency of the Senate and House for

[53] "Ham and Eggs," by Cary McWilliams in the New Republic, Oct. 25, 1939, p. 332.

[54] A similar proposal for "self-liquidating" "pension or recovery money" paid for by stamps is the "American Recovery Plan," Occidental Building, Indianapolis, Ind. (W. S. McClintic, national director). Pensions sufficient to provide an income of $30 weekly would be issued to unemployed citizens over 50 years old. The aim is to eliminate interest costs and Government debt itself, but again the incidence of the taxation would be on the consuming public.

[55] 48 Stat. 31, sec. 43 (b).

a study of monetary proposals the Board of Governors of the Federal Reserve System wrote:

> During this session of Congress, as during other recent sessions, the Board of Governors has been asked by committees of the Senate and House to report on a large number of bills dealing with proposals for overcoming the country's economic difficulties by monetary action. Among the proposals that are currently before Congress, many are based on the belief that our difficulty is in the lack of an adequate supply and control of money. Some would remedy this situation by the issuance of currency, either directly by the Treasury, or through the Federal Reserve banks; some would retire Government bonds by issuing paper money, and thus not only increase the supply of currency, but also reduce or retire altogether the interest-bearing public debt.[56]

Most of those who favor financing Government spending by having the Treasury issue currency or its equivalent differ, as do most other advocates of Government spending, over how they would disburse the new moneys. Ex-Congressman Charles G. Binderup, for example, would disburse the new costless money to widows, orphans, and other needy people;[57] James R. Allen[58] would disburse it to all adults with assets of less than $5,000; James H. Lang[59] to those who would use it in construction of new housing—on a mortgage-loan basis at profitless interest rates. Maj. C. H. Douglas would disburse it as subsidies to those who demonstrate in purchase receipts that they spend the money they receive;[60] James H. R. Cromwell and Hugo E. Czerwonky would disburse it as subsidies to those business men who borrow and initiate new activity.[61] A. A. Berle, Jr.—proceeding on two premises, first that more "investment" is needed to heal depression, and second that it is justifiable to create additional money for the purpose—would set up a system of "capital credit banks" to disburse the new money to all agencies, public or private, that are willing to make new investments.[62] The money would be credited and extended at usual commercial rates to straight business enterprises, but would be created and extended at practically zero interest to non-profit enterprises.

Arguments for financing Government spending with costless money usually revolve around three contentions: First, that depression exists mainly because the absolute quantity of money in the Nation is inadequate; second, that money is inherently only a token, and, since the Government has the sole right and power to create it,[63] more of it should be created and disbursed to meet existing needs; third, that interest on money is largely a reward to money savers for "not-hoarding," and that in times of depression such a reward should not be paid to them and hence the Government should utilize costless money in place of borrowing.

ARGUMENT THAT THE QUANTITY OF MONEY IS INADEQUATE

The view that depression prevails because the existing quantity of money is inadequate and that the provision of a larger supply of it

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[56] Federal Reserve Bulletin, May 1939, p. 363.
[57] See Congressional Record, Appendix, 75th Cong., 3d sess., vol. 83, pt. 10, p. 2274.
[58] Address, 722 Bennett Street, Wilmington, Del.
[59] Address, 35 Beach Avenue, Larchmont, N. Y.
[60] Social Credit, W. W. Norton & Co., New York, 1933.
[61] In Defense of Capitalism, C. Scribner's Sons, New York, 1937, pp. 80–89.
[62] "A Banking System for Capital and Capital Credit," Exhibit No. 620, Hearings Before the Temporary National Economic Committee, Part 9, pp. 4067, 4068, 4072 ff., 4078.
[63] Proponents of this contention maintain that the Constitution of the United States provides that the Federal Government alone has the right to create money, and that the creation of credit money by private bankers is a usurped power.

would effect a rapid recovery is very widespread. It is so common that the Federal Reserve Board, in the statement referred to above, singled it out for criticism in saying:

The Board at different times in response to committee requests has stated its position on individual proposals. While it has expressed disagreement with some of the measures which in its judgment would not accomplish the purposes for which they are intended, it recognizes the importance of making every effort to achieve the underlying objective, which, broadly speaking, is the fullest practicable utilization of the country's human and material resources. It has been the Board's view that, since the money supply, however measured, is larger now than at any previous time, the difficulty must lie not in the scarcity but in the inadequate use of the existing supply.[64]

The fact that the Nation's quantity of currency was larger during the spring of 1938, for example, when the Federal Reserve Board's index of industrial production was down to 76, than it was in the spring of 1937 when this index was up to 118,[65] confirms the Federal Reserve Board's view that depression was not being caused by a shortage in the money supply. On the other hand, the fact that prevailing unemployment is not being caused by a national shortage of money does not rule out the possibility that in times of depression there may be a shortage of money in the hands of those who are willing to use it, nor the possibility that new injections of costless money at the proper points might alleviate economic conditions.

One source of confusion responsible for the view that we have an inadequate supply of money is the belief that the quantity of money should equal the value of the product. Many people recognize that business borrowers, who are instrumental in creating money, release (in the form of wages, salaries, interest, dividends, etc.) approximately enough money to buy back the goods and services produced; but not everyone recognizes that, whereas the goods produced travel a one-way path from production to consumption, money created by business borrowers circles around the markets and is capable of performing a highly variable amount of work—capable, that is, of "clearing" a highly variable number of transactions. As the National Resources Committee puts it: "Production moves by successive steps toward the consumer while the money flows directly connected with production move in the opposite direction. Production, with rare exceptions, is a straight-line flow toward the consumer, ending with the latter. Money flow is in the main a circular flow, the same dollars being able to repeat the circuit time after time. It is partly because of the circular character of the flow of money that the financial flows are so poorly understood as compared with the more direct flows of production."[66] Failure to recognize these relationships lies at the root of the belief of such writers as Major Douglas, Cromwell, and Czerwonky that the creation of money and goods must be synchronized and that if, as they maintain, structural and institutional changes occur which impede the flow of some of the constituent money streams, more money must be introduced into the system.

As a matter of fact, the historic growth of time deposits within the banking system is itself proof that in the normal course of trade business borrowers are instrumental in creating and releasing into the channels of trade more money than is needed to exchange in our

[64] Federal Reserve Bulletin, May 1939, p. 363.
[65] The same, p. 422; for currency supply, see the same bulletin for July 1938, p. 591.
[66] The Structure of the American Economy, Part I, U. S. National Resources Committee, June 1939, p. 79.

markets the goods and services produced. A large fraction of the demand deposit dollars disbursed by borrowers are soon received by people who do not wish to use them as exchange instruments, preferring to extinguish them as mediums of exchange by depositing them at their banks as time deposits rather than as demand deposits. (Time deposits may be regarded as "money" by some people, but it is difficult to see how time deposits can be regarded as mediums of exchange.)

ARGUMENT THAT MONEY IS A TOKEN VALUELESS IN ITSELF WHICH ONLY THE STATE SHOULD CREATE

Another group of advocates of a costless money, such as Hugh Fack,[67] Frederick Soddy,[68] J. E. Bistor,[69] and G. Binderup,[70] contend that money is a token which in itself is valueless, that the state should properly retain as a state monopoly the power to create money, that the state today unwarrantedly permits bankers to usurp this power (the group regards bankers as counterfeiters who are benignly tolerated by the state); that the state unjustly requires citizens to pay bankers a fee for creating this medium of exchange, and that the Government certainly should not pay bankers for converting Government obligations into money.

If we are to evaluate contentions like these and if we are to understand both the relative merits of fiat money, Government money, private credit, and gold as mediums of exchange, as well as the relation which these various forms of money have to one another in our own banking system, we must examine the complex nature of modern money itself. We must examine how, in the web of law and practice, tangible monetary mediums like gold and silver are related to intangible monetary mediums like Government credit and private credit. We must examine how our exchange mechanism came to shift from the preponderant use of wealth mediums and certificates of ownership (warehouse receipts) to the current preponderant use of certificates and records of indebtedness. In the process of doing so we shall find that some of the widespread fears of "inflation," "expropriation," "Government bankruptcy," etc., are rooted in perplexity regarding the interrelated roles played by our gold bullion, private credit, and Government debt in our monetary and banking system.

EVOLUTION OF MONEY FROM WEALTH MEDIUMS TO CERTIFICATES OF INDEBTEDNESS

Within loosely organized societies and between societies with independent sovereignties, wealth mediums like gold, silver, furs, tobacco, or other materials with intrinsic value, tend to be used exclusively as the mediums of exchange. But when organized societies develop

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[67] Address, 309 Madison Street, San Antonio, Tex.
[68] The Role of Money, George Routledge & Sons, London, 1934.
[69] President of "Honest Money Founders, Inc.," a monetary group with headquarters at 111 West Washington Street, Chicago. This organization has as 2 of its first demands: "Replace gradually our $34,000,000,000 of tax exempt interest bearing Government bonds with sound constitutional money (saving our taxpayers nearly a billion dollars yearly interest now paid to the money monopoly of banks and insurance companies)," * * * and "Restrict all future money to Treasury notes, to be full legal tender, good for all debts and taxes at face value." From Booklet No. 2, published by Honest Money Founders, p. 21.
[70] See p. 48 above.

efficient court and police systems, wealth mediums tend to be superseded as exchange instruments by certificates of indebtedness.

Wherever contractual agreements pertaining to future behavior are treated as property, there rights, duties, liberties, exposures, powers, and restraints (the constituent ingedients of property rights) are given to the ownership of intangible expectations based on "promises to pay" as well as to that of tangible items like gold dust. Both become assets worth owning. And whenever the institution of property evolves to the point where it becomes even more convenient and efficient to use "certificates of indebtedness" as mediums of exchange than to use gold itself, then such certificates tend to supersede the use of wealth as money. For even precious metals are imperfect exchange instruments. They are liable to loss, chipping, and inaccurate evaluation at each transaction. On the other hand, "promises to deliver," say, wheat or lumber or gold, when backed by real-property collateral in the enforcement machinery of the State may become more useful as mediums of exchange than either gold bullion or warehouse receipts to gold bullion. And when promises are institutionally scrutinized, O. K.'d, and insured with a reserve of value (see p. 16), they become superior as exchange instruments to both gold coins and gold certificates.

Historically, the evolution of money has tended to make it a medium with an ever better store of value. Relatively perishable commodities like Alaska's furs and Virginia's tobacco were early superseded by coins of silver and gold. When the institution of property evolved further, to the point where titles to property could conveniently be made out and protected, warehouse receipts came to compete with coins as money. For, when societies made warehouse receipts negotiable, warehouses sprang up where rich traders could store their goods. And, with warehouses set up, producers could sell their products to traders on consignment and take warehouse receipts in exchange—receipts which were very acceptable as money. Consequently, by means of book entries, book "credits," "scrip," "transfer slips," or whatever they chose to call their warehouse receipts, producers could exchange goods with one another by simply transferring their receipts to goods in the warehouse.

"Certificates of ownership" or "warehouse receipts" were more divisible, convenient, and theft-proof than gold bullion itself. Yet they could not be hoarded without loss except in the single case of certificates of ownership to metals such as gold. For, obviously, the title to specific furs, hides, crops, or fabrics depreciated in value as rapidly as the goods themselves; they had the same carrying charges. Only titles to gold and silver did not depreciate with time, and these alone could be hoarded with impunity. Consequently, people ceased using as money all warehouse receipts except those for gold and silver; that is, they began using "gold and silver certificates" as a major form of medium of exchange. Under this arrangement the legal title to and the physical possession of wealth were separated. The gold itself, for example, stayed in the ground or in the warehouse, while the title to the gold circulated as the medium of exchange. At this stage of monetary development the monetary form was slightly better as a store of value than was gold; for the losses of shipping and inaccurate weighing were elimi-

nated. There had come to be less risk in the enforcement of contracts than in the physical weighing and transferring of precious metals.

Money improved as a store of value, in pronounced fashion, however, only when certain kinds of certificates of indebtedness came to supplant gold warehouse certificates as a medium. Before we explain how such assets came to be used for money it is best to review how certificates of indebtedness came into existence in the first place, and how they came to have the relative imperishability which they now possess. A look into the nature of contract will explain why certain kinds of certificates of indebtedness like banknotes were able to drive out warehouse receipts such as gold certificates as the preponderant form of medium of exchange.

With development of the institutions of property and contract, certificates of indebtedness of many kinds came into existence. And as soon as these institutions were crystallized business borrowers could use their own institutionalized promises—backed as they were by their possessions—in payment of goods and services. Since the farmer's promissory note in terms of potatoes had value, he could use it in his immediate neighborhood to purchase other goods. Next, by stating the current value of his promise (and having that value endorsed by a banker) in terms of a unit of the particular kind of asset used by the community as its "standard of value," he could convert his promise of very limited acceptability into an asset recognized and accepted everywhere as valuable.

When business borrowers made such conversion arrangements, however, and spent their transmuted promises for goods and services, they unintentionally provided those who wished to "save" the transmuted promises with an asset that was well-nigh perfect as a store of value. For the value of the borrowers' promises, based as they were on a postulated future selling price for their products, was not only expressed in terms of the current monetary unit and evaluated on the basis of that unit's current purchasing power, but also insured for the recipients for 90 days with the borrowers' farms, barns, and other possessions. For the value of all the borrowers' possessions above the face value of their promises operated as an insurance to the recipients and "savers" that the value of the promises would persist. When possessions are put up as forfeits behind what are in effect current appraisals of future revenues from production, savers of such insured appraisals need no warehouses or safety vaults to preserve their assets. With these certificates of indebtedness standardized in the form of banknotes which were issued to one borrower after another, their value acquired continuity and they became relatively imperishable.

If it is clear how certificates of indebtedness in the form of banknotes came to have a reserve of value behind them which appreciably insured their face values, and how they came to be the safest kind of asset to hold, it is easy to see how they came to be sought more than warehouse receipts (even gold certificates) and to replace the latter as mediums of exchange.

Before the inauguration of credit money, money lenders like the medieval family of Fuggers, lent to clients both gold and warehouse receipts to gold. Borrowers, probably because of their faith in the

money lenders, in the uniform quality of the metal, and in the Government's enforcement of agreements, were disinclined to carry the gold itself away from the bank. Borrowers were as willing to use and pay interest on transferable warehouse receipts as they were to use and pay interest on the chunks of gold themselves. Because people were so disposed, bankers were presented with a new business opportunity. They noted that on the whole not more than one certificate of ownership to gold out of every ten issued was presented for redemption within a given period of time. Consequently, when a warehouse receipt was presented, bankers could redeem it—the gold being uniform in quality—with any ounce of gold they had on hand. The bankers discovered, too, that the stream of deposits practically equaled the stream of withdrawals, and that to buffer the difference they needed only one-tenth as much gold as their depositors assumed they had in the warehouse. As a consequence the bankers could issue and "lend" 10 times as many warehouse receipts—or certificates of ownership to gold—as the actual supply of gold seemed to warrant. This came to be the banking custom. One thousand ounces of "gold" came to be "lent" at "interest" for every 100 ounces of gold in existence.

But by "lending" more gold than they had, the bankers were—as a matter of economic fact—"lending" promises to pay gold upon demand, promises which were not actually warehouse receipts. For the bankers did not have all the gold that they "lent"; they merely promised it and hoped to get it by selling or rediscounting their assets (in exchange for each other's gold) if driven to do so. The bankers realized that they could not all obtain enough gold to redeem their promises simultaneously—there was not enough of it to go around; but each banker gambled that he could obtain it more quickly than the others. Still by "lending" more gold than they owned, they were really lending "certificates of indebtedness," not "certificates of ownership to gold." In striving to maximize their loans the bankers actually had changed the nature of money.

After a time the bankers dropped the pretense that they were lending warehouse receipts, or certificates of ownership, and they dropped the pretense that they were acting as custodians of the gold on which borrowers were paying interest. Finally, indeed, they frankly wrote on the notes or negotiable instruments that they lent: "This is our promise to pay an ounce of gold upon demand," not, as formerly, "This is your certificate of ownership to ounce of gold No. 2481 in vault No. 14." Obviously the new paper money was no longer a title to gold but a promise to (attempt to) get it when called upon to do so. Thus "promises to pay," or debt obligations, came to circulate side by side with gold coins and even to exceed them in point of volume. The circulation of the gold was a hangover from a barter economy; the circulation of the promises was the inauguration of a credit economy. And by this evolutionary change assets with superior hoarding qualities were increased tenfold.

The introduction of "certificates of indebtedness" was not the last physical change made in the nature of money. When bankers set about entering into new debt obligations they did not issue in each case an actual piece of paper stating, "This is our promise to pay gold on demand." They created only a few such physical certifi-

cates. In the United States until 1933 these few comprised a large part of our paper money, our "currency," and were designed primarily for ready hand-to-hand use. The vast supply of bankers' debt obligations were set up merely as book entries to the credit of borrowers. The borrowers themselves signed "notes" and made out actual physical slips of paper, but the bankers only made book entries to their depositors' accounts. The simple process of having bank clerks record figures in deposit books was the efficient substitute for creating and using cumbersome paper bills. Functionally and, on the whole, legally, the entries were the equivalents of printed certificates of indebtedness; but physically they provided a much simpler arrangement.

In passing, it may be interesting to reflect that we have been so naive in our understanding of money that, while we have regarded the non-use of currency (that is, of promises to pay that are reduced to paper bills) as "hoarding," we have not customarily regarded as hoarding the non-use of bank deposits, which are the economic equivalents of those paper bills (since both moneys are but claims against the generalized assets of the banking system). Naively, too, we have passed laws punishing those who hoarded gold and gold certificates, but have lauded as "savers" those who have hoarded those insured appraisals of future production values which are held in the form of book entries.

THE NATURE OF "DOLLARS" AND "BANK LOANS"

We have just seen how bankers who began by lending only titles to the gold that they owned ended by "lending" promises to pay 10 times as much as they had. Superficially it would seem that bankers were unwarranted in doing this. Still we should not jump to the conclusion, as many critics of banking have done, that the bankers were counterfeiting the difference. Accurately to understand the situation, it is necessary to examine into what bankers do when they "lend" money.

When bankers first lent gold to their clients, they had a certain quantity of it. Let us assume that the first American bank doing business under the gold standard had only 23,200 grains of gold. Since the law said that the country's monetary unit (the "dollar") must contain 23.2 grains of pure gold, let us assume that the banker lent out his gold in chunks with 23.2 grains or multiples of 23.2 grains in each. Then how could it develop that the banker managed and dared to "lend" more gold than he had? It developed out of his habit of demanding contractual "security" for his loans.

Borrowers who initiated loans were usually businessmen with property. Such men (like the farmers) could, of course, have carried on exchange with one another without the help of the banker by exchanging with one another their notes—their secured promises to produce goods. Because exchanging such debt obligations was relatively difficult and inconvenient, however, they much preferred to convert their notes into more acceptable pledges—into bankers' promises to pay "gold on demand"—since everyone was willing to accept such promises on sight.

An examination of the process of converting pledges reveals that bankers (in the days when we were on the full gold standard) could

"lend" more gold than there was in existence only because they were really lending nothing at all. We shall see that borrowers always use as purchasing power only a part of the current value of their own assets after the value of those assets has been transmuted into a new form and guaranteed to the public by the banker.

In the creation of deposit money, borrowers carry out the conversion of their assets by inducing bankers to exchange debts with them. They promise one another an unequal quantity of "dollars" to be delivered at different dates. In initiating, say, a $1,000 loan, that is, in creating $1,000 worth of "money," the borrower has the banker assign a $1,000 value to such a fraction of his assets as he pledges will be worth, say, $1,015 (at 6 percent) 90 days later. The borrower plans to produce and sell goods before that date, and it is this product which he plans to exchange for at least 1,015 of the public's dollars before the 90 days are up. The banker plans on such performance, too.

Since, however, both realize that something may go wrong with the borrower's plans, the borrower gives the banker a note which the courts regard as being a contingent claim against his property. The borrower in substance says that if he fails to pay the banker $1,015 within 90 days, the banker may commandeer his pledged property and sell it to reimburse himself. The banker is willing to promise 1,000 gold dollars "on demand" (even though he realizes that there may be no new additions to the country's quantities of gold to make his promise a realistic one) because the borrower puts up, as collateral, assets which the banker believes at the time of the loan can be exchanged for much more than $1,000 in gold, and which he feels convinced will be worth in gold at the loan's maturity—even in a forced sale—at least as much as the face value of the loan.

Thus by means of an exchange of debts, the banker in effect says that for an "interest" (or conversion) fee of $15 (6 percent), he will guarantee that the borrower's security, which may be worth many thousands of dollars at the time of the loan, will be worth at least $1,000 at the termination of the loan, and that he, as banker, will convert, for the duration of the loan period a prior claim against the borrower's assets into a claim of $1,000 against himself. In a nominal sense, the banker underwrites the borrower's pledge by taking the responsibility for its value at maturity. In a realistic sense, however, the borrower himself underwrites the banker's evaluation and takes the bigger risk because he insures his note with a contingent claim against his other possessions.

The fact that bankers usually go bankrupt only after large numbers of their clients first go bankrupt indicates that borrowers and not bankers are the primary underwriters of the debt exchange. Functionally speaking, the banker simply puts part of the present value of the borrower's assets into a new dress which has a more acceptable form and credits it back to him. After the money is created the borrower has part of the value of his assets expressed in their dollar equivalent and can more readily distribute his purchasing power for labor and raw material.

Note that in the asset-conversion process the banker has lent no gold or titles to gold; he has remained the custodian of his own gold the whole time. He has merely incurred an obligation to pay dollars. And while he has incurred an obligation to the borrower, he has re-

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ceived in its place the borrower's equivalent (though numerically larger) obligation to repay dollars to him. The borrower's future obligation may be on its face some 6 percent greater in dollar terms than the banker's balancing liability, but the present value of both obligations is regarded by the parties to the transaction as equal.

Since the community feels that, as a matter of course, the banker always balances his debts with contingent claims against borrower's assets which have values far in excess of the amount of his loans, and that he gets no poorer as his loans increase, it reasons that there is no logic in investigating whether the banker really possesses that mysterious asset, gold, which he claimed that he had in vault when he first began his role as banker. Normally the banker's $1,000 gold supply is never looked at or asked for. Yet in a nominal sense, whenever the banker has "lent" exactly $1,000—no more and no less—against borrowers' assets, a "dollar" can be regarded as a realistic claim to 23.2 grains of gold, for the banker actually has 23,200 grains of it in his vault available for redemption. Thus at the very beginning of the banking process, when the bank's gold reserve of 23,200 grains was exactly equal to the value of the borrowers' notes, the "dollar" could be regarded as being either 1/1000 part of the value of the borrowers' obligations to the banker, or, if the holder of it so chose, as 1/1000 part of the gold in the vault; that is, as a claim to 23.2 grains of gold. (This claim citizens are permitted to exercise normally when they do not want gold, but are not, as a rule, permitted to exercise at times—like the bank holiday period—when they prefer gold.)

When, however, bankers "lend," say, $2,000 against the secured obligations of borrowers, and there is only $1,000 worth of gold in the banking system, each "dollar" in circulation cannot be, as a realistic matter and despite any legal definition of it, a claim to 23.2 grains of gold. It is then at most a claim to 1/2000 part of the bank assets, assets which consist of a mixture made up of 1,000 pieces of gold plus miscellaneous bundles of borrowers' debts which are in the nature of contingent claims against property. As soon as bankers began to issue obligations to pay gold on demand against borrowers' assets, the gold dollars became merely yardsticks of value—gauges against which bankers could evaluate the assets of borrowers. The gold is in effect locked up like a gauge at the Bureau of Standards while the assets evaluated or measured against the gauge circulate as the medium of exchange.

As soon as the bankers promise to pay on demand more gold than there is in the banking system, a dollar ceases to be a realistic claim to a certain number of grains of gold, and the deposit "dollar" becomes only a fractional claim to the assets of the bank—assets consisting of a hodge-podge of pledged values which are backed by contingent claims against farms, goods in process, real estate, railroads, factories, etc.

We may now summarize the money-creation process. Men with valuable but clumsy assets, like goods in process, farms, factories, "accounts receivable," and even speculative prospects—assets which cannot be conveniently broken up and handed out as money to workers and manufacturers in exchange for labor and materials—come to the banker when they want to engage in exchange to get him to help them convert their assets into a usable and acceptable form. Because the

banker has gold and other wealth, they want him to certify that they, too, have assets which, if offered in exchange, have a gold worth at least equal to the $1,000, $2,000 or whatever sums they wish to borrow. The borrowers want the banker to underwrite his judgment to the effect that their assets have a definite worth. For this assistance they are willing to pay him a fee and to extend to him, for the duration of the transaction, a contingent claim against their assets.

Until we went off the full gold standard bankers pretended to be lending gold. Actually, they were evaluators of the assets of borrowers, cautiously transforming, by means of a debt exchange, part of the borrowers' clumsy assets into negotiable "dollars," which were intended to be so unquestionable in worth that they would be accepted on sight at their face values. Then after making an exchange of debt with each of the borrowing clients, they balanced the indebtedness accounts of all of them. They did the bookkeeping. They were the treasurers for a community that dealt in pledges. They, in effect, balanced one man's promise to produce butter against another man's promise to produce potatoes, and by so doing assisted all producers in exchanging goods with one another.

Bankers have a tendency to be conservative in their evaluations because they stand to lose their own assets if the borrowers' assets do not have the total value on their dates of maturity that was anticipated when they were converted. If a banker carelessly grants a $1,000 loan on a note which proves worthless, he really makes a present of $1,000 to the borrower. And, since the banker is, in effect, the treasurer of the community and keeps his own funds with those of the community, he has the power to lend some of the community's property to borrowers who have none of their own. As A. A. Berle, Jr., says, "In earlier times, the local bank not infrequently used to do this, providing capital to young men who had ideas and ability, and staking them to the creation of enterprises of benefit both to the enterpriser and to the community. Many American businesses which have since attained substantial proportions were started in exactly this way. The large commercial banks do not do this today. If they desired to do so, they would probably not be permitted to do so under the prevailing banking regulations. Indeed, the major theory on which they operate, i. e., creation of bank credit for short-term processing or transportation or merchandising jobs—runs chiefly counter to any theory that the bank, among other things, is supposed to assist in organizing new productivity.[71] Thus, as a rule, the banker does *not* divert to borrowers someone else's assets on which to operate until they have produced and sold their goods. The borrowers buy labor and raw materials with their own assets—with the present value of their own future obligations.

Borrowers' secured obligations necessarily have a present value. By overlooking this fundamental fact many theorists have erred in believing that bankers today extend to borrowers claims against the assets of the community which the borrowers would not otherwise possess. Such a belief is unwarranted. Bankers are not essentially lenders; they are evaluators and converters. Unwarranted, too, is the view that those price rises which usually follow rapid expansion

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[71] In "A Banking System for Capital and Capital Credit," Exhibit No. 620, Hearings Before the Temporary National Economic Committee, Part 9, p. 4072.

of bank "loans" are caused by the extension by bankers of purchasing power to producers. Such a rise is due to the willingness of producers themselves to add a new quantity of money—their own newly converted debt obligations—to the old money that is currently bidding for the goods and services for sale in the markets.

Since 1933 the quantity of money in the United States has been expanding. This has not been caused, however, by an increasing monetization of private assets, but by an increased monetization of public debts and an unusual influx of gold for deposit. Since 1933 the United States Government has been the major borrower whose obligations the banking system has been converting into money. Unlike the conversion of private obligations, the conversion of Government obligations requires little risk-taking by the banker and the "conversion fee" or interest rates charged the Government have as a result been very low.[72] The reason that the Government must still pay over 2 percent for the monetization of its long-term obligations is not that banks run a risk that Government bonds will not be redeemed (so long as the Government retains its sovereign power to create money, it can always redeem its bonds in terms of the promised "dollars"), but because a business upturn might raise the yield on money and thus cause the market value of outstanding bonds to fall.

The question of which is the more desirable kind of asset to use for money, whether monetized private debt or monetized public debt, may be a relatively important one; but it is, nonetheless, highly secondary to the issue of keeping in circulation whatever asset happens to be selected for use as money. For all kinds of money, whether they be rooted in Government borrowing or private borrowing, whether they be bank obligations with fractional reserves or with 100 percent reserves, may, under our present laws, be laggardly used by their recipients.

In one respect monetizing Government debt affects the money supply in a different way than does the monetizing of private debt. When credit money is created against private debt and that credit money is used so slowly that workers are dismissed, prices fall, and factories close, then loans are curtailed by the banker and the money supply is contracted sharply as a result. That is what happened, for example, during the deflationary period from 1929 to 1933. But when credit money is created against Government debt, and that money is used so slowly that depression results, loans to the Government are not curtailed and the money supply is little affected. From the peak of business recovery in 1937 to the bottom of the dip in 1938, for example, the supply of money representing Government debt even continued to expand, while that which consisted of private debt contracted sharply. Even though business activity was declining, banks had no reason, as explained above, to "lose faith" in the redeemability of Government bonds in terms of "dollars."

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[72] Apropos of this point, Berle writes: "There may be every reason for asking 4 or even 5 percent return from a commercial enterprise; but there should be the possibility of charging, say, one-eighth of 1 percent for a noncommercial enterprise, such as a hospital. It is to be remembered that when the Government gives to a banking organization the power to create money, it no longer is necessary to offer an interest rate to stimulate that creation." ("A Banking System for Capital and Capital Credit," in Hearings Before the Temporary National Economic Committee, Part 9, p. 4073).

EFFECT OF "COSTLESS MONEY" ON SAVINGS, THE PRICE LEVEL AND GOVERNMENT CREDIT

Now, with perhaps a clearer understanding both of the nature of money and of the banking process, we can resume our examination of the proposal to finance Government spending with costless money, mentioned on page 47. Would such action be inflation? Would it deprive banks of a valid source of income? Would it lead to expropriation of the present savers of money? Would resorting to fiat money and the printing press save the Government large sums in interest?

Recourse to costless money would undoubtedly constitute monetary inflation, inasmuch as the quantity of money—currency or deposits, or both—would swell in volume continuously. But such results would not necessarily spell price inflation. Price inflation would result only if voters and their leaders elected to create and disburse costless money on such a scale that practically all unemployed workers were absorbed and pressure was put on existing productive capacities to the extent that competition between producers raised costs and prices (cf. page 38). If, in deflationary periods like that which prevailed from 1929 to 1933, fiat money had been resorted to in only a mild degree, prices certainly would not have run away. And if, since 1933, money had been printed and disbursed on no greater scale than it has been borrowed and disbursed since that time, the price level would probably be no higher than it is today. Thus recourse to costless money does not necessarily mean higher prices.

The major objection to fiat money, perhaps, is not economic but political. The danger is that politicians would not adjust their demands for costless money to criteria which would preclude price inflation. It might well appear obvious to them that if a little fiat money can do some good, much of it can work wonders. Politicians might compete with one another in promising their constituents bonuses and pensions to be financed with costless money.

On the other hand, it does not necessarily follow, once fiat money is resorted to, that the quantity of money will inevitably be expanded in such astronomical quantities that the price level will run away and all internal debts will be destroyed. Russia and Germany did destroy the value of their moneys by resorting to such unlimited monetary inflation that they generated an astronomical price inflation which expropriated the creditor class. On the other hand, France and Italy resorted after the first World War to enough monetary inflation to generate considerable price inflation, and stabilized their currencies at a new level, but did stop short of completely expropriating creditors.

Ex-Congressman Binderup[73] advocates disbursing costless money to people at the bottom of the income scale, on the ground that they need it and would keep it in circulation. Would such disbursements, if made, in themselves bring on Government bankruptcy? Not if resorted to on such a mild scale that the price level did not rise. And to judge from our experience during the past decade, the Govern-

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[73] See p. 48 above.

ment's net contribution to the purchasing power stream would have to exceed appreciably $2,000,000,000 to $3,000,000,000 per year to keep prices on an up-trend.

If recovery is to be sought, not through installation of social controls which induce private industry itself to work more actively, but through calling on the Government to disburse purchasing power among otherwise idle workers, it seems sounder to create the money disbursed than to borrow it. Government credit probably would not be injured by doing so. Just as heavy Federal borrowing since 1933 has not—to judge from the manner in which each new issue of Federal bonds is over-subscribed—caused investors to "lose faith" in the solvency of the Government, so limited recourse to costless money probably would not cause them to lose faith in the redeemability of its promises.

During the past 9 years the Government has borrowed and spent on the average about $2,900,000,000 per year. (On July 1, 1931, the gross debt of the United States was $16,801,000,000;[74] on July 1, 1940, it was $43,061,000,000.)[75] Each successive injection of Government funds has come to rest in the hands of well-to-do people who have preferred not to keep the injected funds circulating at the rate at which they were disbursed. Year after year the injections have slowed down, and the Government has borrowed at interest again. Not even the interest payments have continued to circulate at their initial injection rate.

Some people, like Josef Geiger[76] and Jesse LaRue, would have the Government cease paying interest on its borrowings. LaRue writes—

> It is because interest, like the larger part of business profits and individual savings, is held out of use, and thus robs the economic blood-stream of its substance, that men can no longer earn their livelihoods. Such large withdrawals ultimately bleed industry white. This is why interest must be abated.[77]

Whether it must be abated or not, the replacement of tax-exempt, interest-bearing Government bonds with costless money would, as he maintains, save our taxpayers about $1,000,000,000 per year.[78]

But would obtaining Government funds without paying interest be an injustice to money savers? It is generally believed that recourse to costless money would operate to expropriate the present holders of money. Would it? Again it would depend upon the extent to which costless money were resorted to. It is even possible that, in times of depression, moderate issuance and disbursement of fiat money would operate to protect savers of money against deposit losses which they would otherwise incur as a result of their own behavior. This is explained as follows:

Ours is a system in which business borrowers, in converting assets into a current monetary equivalent, in effect contract that their products (or collateral security) will have a specified "dollar" value at a future date (even though they have no control over the future demand which will largely determine that value). Under such a

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[74] See the President's Budget message to Seventy-Sixth Congress, first session (Congresisonal Record, vol. 84, pt. 1, p. 118).
[75] Treasury Statement as of July 1, 1940 (New York Times, July 4, 1940, p. 21).
[76] Address, 412 East Wright Street, Milwaukee, Wis.
[77] The Truth About Interest, Booklet No. 2 of Honest Money Founders, Chicago, p. 12.
[78] The same, p. 21.

system the failure of savers who come into possession of "fortified" money[79] to offer their money in exchange for goods, operates to enhance the value of dollars outstanding by generating industrial recession and price deflation. For prices fall and hoarded dollars increase in value in terms of goods whenever the rate of use of fortified money is reduced. Consequently, by the mere process of not using money at the same rate at which it was originally disbursed, savers of money can make big gains by buying "surplus" goods and properties at distress and bankruptcy prices.

But if savers hold their money idle to too great a degree, or hold it too long, so that many business borrowers are forced to default, then bank portfolio values crumble too. And if they crumble far enough, banks become insolvent and the "saved" dollars—the unused claims to society's products held in the form of bank deposit liabilities—are themselves wiped off the community's books. Thus, the habit of "saving" money too long may defeat itself. Since it is a behavior which is individually wise but collectively foolish and is carried on without group direction, it is frequently carried too far. It is at such times, when saving is about to go too far, that injections of fiat money can benefit money savers as well as the public at large. If in January 1933, for example, just before the banking system of the United States began to crack as a final result of inadequate monetary demand, the Federal Government had disbursed several billions of dollars of fiat money, business activity and business values might have been raised so far that the deposit accounts of many money savers would not have been wiped out.

Similarly, it is quite clear that during depression the disbursement of costless money on a scale which would raise prices somewhat would not expropriate the savers of money so long as prices were not raised beyond their level at the time when the investors first began to "lose confidence" and to withhold their savings from the business stream. Governmentally injecting costless money at such times would operate only to deprive money holders of the gains which they would stand to make by buying goods at the lower prices which their own laggard spending had generated. If society is not to devise controls which insure that recipients of money themselves use it for goods and services at the same rate at which they receive it, there is perhaps a better case for neutralizing hoarding[80] with costless money than there is for borrowing it and increasing the Federal debt.

"SOCIAL CREDIT" AS A "COSTLESS MONEY" PLAN

One of the better-known reemployment plans of today which advocates the handing out of costless money, is "social credit," first sponsored by an Englishman, C. H. Douglas.[81] Recourse to costless

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[79] See p. 17 above.

[80] Today the term "hoarding" is used in monetary theory to mean, not the accumulation of cash holdings, but the decreased rate of use of the money under one's control. Hoarding cannot be measured statistically. When the rate of spending falls, business activity declines, loans are curtailed, and the decline in the quantity of money, currency and demand deposits, parallels the decline in the rate of use of money. Since loans are called and reduced and money goes out of existence when spending is curtailed, hoarding should be measured not only by the decreased rate of use of existing money, but also by the amount of money that has indirectly been driven out of existence by the lessened business activity generated by the reduced velocity of money.

[81] In his "Social Credit".

or fiat money is not advocated in such terms by the plan referred to, but the money which it advocates handing out as "national dividends" it proposes to obtain in a costless manner by simply "capitalizing" the assets of the state.

Under "social credit" the assets of a country, its land, roads, buildings, minerals, etc. (with no distinction between public and private property), are to be "capitalized." To this will be added a sum "representing the present commercial capitalized value of the population."[82] Initially an arbitrary percent of this total is to be paid monthly through the post offices to all but the more well-to-do citizens. Thereafter citizens qualify for their "dividends" by buying goods from registered business concerns which will give to each purchaser receipted accounts for goods purchased. These receipts the State will accept, when the purchaser deposits them at the bank, at a value equal to an arbitrary percentage (25 percent at least, is recommended) of the value of the goods purchased.[83]

> Payment for goods will be made in the ordinary way, either by check or currency. The purchaser will lodge his receipted account for goods bought with his bank in the same way that he now pays in checks, and the discount percentage of the amount of such account will be recredited to the consumer's banking account. Unregistered firms will not be supplied with the necessary bill forms for treatment in this manner, with the result that their prices will be 25 percent, at least, higher than those of registered firms. * * * The total of the sums credited by the banks to private depositors in respect of these discounts will be reimbursed to them by a * * * Treasury credit.[84]

The plan is obviously one which proposes to disburse costless money to citizens on the basis of the extent to which they spend their money for goods and services.

Whereas temporary fillips could be given to business by periodic injections of costless money in quantities of, say, \$2,000,000,000 or \$3,000,000,000 per year, relatively full employment, followed by either dictatorial price control or continuous price inflation, would necessarily result from the full adoption of "social credit." This is because "social credit" proposes by means of "national dividends" to "make good the total deficiency of personal incomes"[85] until the Nation's productive capacities are fully used. As was pointed out on pages 59 ff. above, when efforts are made to bring a nation's productive facilities fully into use by governmentally disbursing buying power, the action ends in upward-spiraling prices as well as in increased employment unless nation-wide price control is adopted. (Briefly, the sequence is pressure on plant facilities and the labor supply, competitive wages, higher prices, sales resistance; additional governmental disbursements in an attempt to maintain demand, buying power and employment; still higher prices, and finally either dictatorial limitation of prices or price inflation.) With price inflation, even the additional money continually received through national dividends would be found to provide inadequate buying power to absorb industry's products at the constantly rising prices.

"Social credit," like plans for obtaining full employment through Government borrowing and spending, is also deficient in that, when

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[82] Ibid., p. 205.
[83] Ibid., pp. 205–212.
[84] Ibid., p. 209.
[85] A. W. Joseph, The A Plus B Theorem (brochure), New Age Press, London, p. 20.

the prices of the factors of production—labor, land, or capital—(or of the products themselves) are too "sticky" or inflexible to bring forth adequate demand, it tries to hand out enough purchasing power to make the system run even though it must pamper certain existing institutional arrangements which make for favored prices in order to make it run. The plan does not automatically call forth such adjustments as lower prices for land, lower prices for strategically entrenched labor, lower interest rates for "fortified" and sheltered capital, and similar pressures on the rigid contributors to production, pressures which would result in inducing already existing money to move around more actively in private business.

CHAPTER III

MONETARY REVISION: STIMULATION OF PRIVATE SPENDING OF IDLE FUNDS

TAXING MONEY INTO CIRCULATION

Having discussed several variations of those plans which aim at recovery by having the Government introduce new quantities of money whenever the money claims derived from the normal processes of production are used too sluggishly—plans which, in practice, all governments resort to when faced with economic breakdown—we shall now review what appears to be the next most common type of recovery proposal.

This type recommends that the Government so modify its laws, taxes, behavior, attitudes, and other means of social control that money savers themselves will elect to use their money in private industry at an adequate rate. Advocates of this approach fall into two major classifications: (1) Those who advocate legislative changes which would—through fewer restraints or by additional rewards—lure money savers into disbursing their money; and (2) those who would impel the savers into disbursing their money by destroying the institutional safety which today enables them with impunity to withdraw from production and the channels of trade. The outward actions of the first group revolve around efforts to "restore business confidence"; the actions of the second, to impose a tax on idle money. Because a review of the second approach throws light on the theory involved in the first, while a review of the first throws no light on the theory of the second, it is advisable to begin this section with a review of the proposal to tax money into action.

This proposal, which basically the author believes has great promise, was advanced in over a dozen different forms by those who submitted recovery plans to the Temporary National Economic Committee. It has long been observed that when people run from a "money" to a "goods" position they experience booms, and that when—vice versa—they run from a "goods" to a "money" position, they experience depressions. As a result, many men want to prevent flights for "liquidity" by neutralizing whatever advantage money possesses that causes people periodically to prefer it to goods. In advancing such proposals they raise some fundamental questions. Why should people ever want to rush to a "cash position"? What safety lies in holding cash that does not lie in holding goods? Why should people ever want to go from a goods to a money position when the real goal of all peoples is to produce and possess more and more goods—not more and more money? Why should people ever decline to use money primarily as a medium of exchange and choose to use

it primarily as a store of value? What advantage has money over goods that leads to such behavior?

The writer's own answers to these questions he has attempted to condense on pages 50 ff. of this report. He believes that in drifting from the use of precious metals to the use of certificates of indebtedness for money, society inadvertently shifted to the use of an asset as its medium of exchange which has its face value bolstered with a reserve of wealth, and that it was the making of this change which has enabled possessors of money to withdraw with safety from the milieu of production.

Men who advocate taxing money into use realize, as do advocates of most other recovery plans, that economic law decrees that money income must—for economic equilibrium—be disbursed as rapidly as it is received; but—unlike the others—they challenge the wisdom of maintaining laws which facilitate the withdrawal of money from production. In other words, they challenge the right to hoard, hitherto regarded in economic theory as inalienable.

Traditionally, in approaching the problem of business cycles, classical economists premised that monetary demand was continuous. Implicitly they always posited that if money was not spent at one place it would be spent at another, and that in the aggregate all money would automatically be disbursed at the same rate at which it was received. They had accepted Say's and Ricardo's view that even though demand were permitted to be anarchic it would, nonetheless, never be seriously missing. Reasoning thus, they argued that the valves which operate to divert the steadily flowing money stream from one channel to another were the ever-changing rent, interest, and wage prices. Because the classical economists followed this approach, practically the only integrated plans for solving business depressions which they could advance were those which hinged on greater price flexibility for overcoming the "frictions" in the system.

Economists have overlooked the fact that when the Nation's money came to consist of certificates of indebtedness, "hoarding"—in the sense of being a decreased rate of use of money—was not only a possible recourse but at times a desirable one for the recipients of money.[1] Consequently, they have always premised statutory laws which would permit hoarding to occur. The analyses of the eminent economists of the past and present include no hint that industrial stagnation may result from giving an undue store of value to the medium of exchange; from giving, through institutional arrangements, hoarding privileges to the possessors of money. In systematic economic literature the possibility goes undiscussed. No suggestion has been made to deprive money of the power to "go on strike," to withdraw from the productive process while awaiting better terms. Unrestrained liberty to hoard or to spend—anarchy in the expression of monetary demand—is always tacitly assumed in economic theory. Therein, perhaps, lies a clue to its historic ineffectiveness in contributing to the curtailment of depressions. As Keynes says (cf. page 19 above), complete acceptance of the Ricardian doctrine that it is impossible for effective

[1] In fact, even the term "hoarding" (along with D. H. Robertson's term "dis-hoarding") was, until recently, used to mean only variations in the size of one's cash holdings, not—as is frequently now the case—a decreased rate of use of money.

demand to be deficient, has historically operated to sterilize economic thought. He adds:

> The completeness of the Ricardian victory is something of a curiosity and a mystery. * * * That it reached conclusions quite different from what the ordinary uninstructed person would expect, added, I suppose, to its intellectual prestige. That its teaching, translated into practice, was austere and often unpalatable, lent it virtue. That it was adapted to carry a vast and consistent logical superstructure, gave it beauty. That it could explain much social injustice and apparent cruelty as an inevitable incident in the scheme of progress, and the attempt to change such things as likely on the whole to do more harm than good, commended it to authority. That it afforded a measure of justification to the free activities of the individual capitalist, attracted to it the support of the dominant social force behind authority.
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> But although the doctrine itself has remained unquestioned by orthodox economists up to a late date, its signal failure for purposes of scientific prediction has greatly impaired, in the course of time, the prestige of its practitioners.[2]

Today, however, some economists are beginning to apply themselves to ways of directly stimulating even private demand. They want to know what institutional arrangements enable money savers to stop using a community's exchange medium in a society where full-blast exchange is necessary for the maintenance of markets for specialized producers, not what the subjective "reasons" are for taking advantage of those arrangements. The institutional "why"—why savers are presented with arrangements which enable them to stop spending—interests them greatly; the hedonistic "why" of economic theory—why savers choose to take advantage of those arrangements—is only of secondary interest.

"STAMPED SCRIP"

Among the better-known plans for impelling private savings into greater activity is Prof. Irving Fisher's proposal for "stamped scrip."[3] Under this plan a carrying charge would be placed on all currency. Paper money would retain its buying power only if stamps, purchased from the Government, were periodically attached to its surface. Every recipient of currency would thus have a new force impelling him to reduce the interval between transactions and to move more readily from money into goods and services.

Stamped-money as a recovery proposal was first suggested by Silvio Gesell (1862–1930), who clearly saw that unless money incurred carrying costs which paralleled those of other kinds of assets, possessors of money would be in a favored position.[4] For, in a world of specialists, barter is so unfeasible that all workers are at the mercy of money holders if these for any reason decide to withdraw from production. Consequently, those who hold the medium of exchange, regardless of what it may happen to be—gold, silver, shells, fiat money, or what not—are able, if the money does not tend to melt away as they hold it, to charge a premium (an added ingredient in "interest") for its relinquishment. Gesell was probably also first to see that at times interest may be (at least partly) a reward for not-hoarding rather than a reward for saving or not-spending. He proposed to make the possessors of money pay for the bargaining

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[2] Keynes, General Theory of Employment, Interest, and Money, Harcourt, Brace & Co., New York, 1936, p. 32.

[3] In Stamp Scrip, Adelphi Co., New York, 1933.

[4] The Natural Economic Order (American translation), Free-Economy Publishing Co., San Antonio, Tex., 1934, pp. 130–147 ff.

advantage with which the greater hoarding privileges attached to money provided them.[5]

Perhaps because Gesell mistakenly contended that the value of money is given to it entirely by the state—that money is only paper which the state transforms into paper money,[6] and because he entirely overlooked how it is the collateral behind bank paper which indirectly gives modern money its unique hoardability (a role reviewed above on pages 51 ff.), his proposal for imposing a carrying charge on money has not been taken seriously. Moreover, Gesell's and Fisher's proposal to tax only currency is patently unfeasible in a modern banking system which uses checks against bank deposits as its main form of exchange medium. Our "deposit dollars" are, in the main, claims against the assets of our member banks; our currency dollars, in the main, direct claims against the assets of our central bank. The two forms, being equivalents, are exchangeable. The first kind is left in the form of a bookkeeping claim; the second is reduced to tangible form. Obviously, since paper currency and bank deposits are alternate forms of money, it would be necessary, if one wished to tax one form of money, to tax the other too, or people would have an incentive to switch from one form of money to the ther.

A FEDERAL TAX ON BANK DEPOSITS

Men who have lately advocated a tax in some form or other on both kinds of money include Jesse La Rue,[7] E. S. Woodward,[8] J. Stuart Barr,[9] George Richmond Walker,[10] Jo Henry Büchi,[11] Arthur H. Brasch,[12] Hugo Fack,[13] John Downie,[14] and C. G. Hoag,[15] In general the tax mechanism suggested by these men is a combination of stamped scrip and a tax on demand deposits. Some suggest that a part of every deposit account, the first $1,000, for example be exempted from the tax.

The author, too, worked out a mechanism for taxing both currency and bank deposits.[16] Instead of stamped scrip, however, he proposed to use a "calendar" currency on which would be printed the changing values of the notes, values which would be synchronized

[5] In discussing Gesell's views, Keynes wrote: "The incompleteness of his (Gesell's) theory is doubtless the explanation of his work having suffered neglect at the hands of the academic world. Nevertheless, he had carried his theory far enough to lead him to a practical recommendation, which may carry with it the essence of what is needed, though it is not feasible in the form in which he proposed it. He argues that the growth of real capital is held back by the money-rate of interest, and that if this brake were removed the growth of real capital would be, in the modern world, so rapid that a zero money-rate of interest would probably be justified, not indeed forthwith, but within a comparatively short period of time. Thus the prime necessity is to reduce the money-rate of interest, and this, he pointed out, can be effected by causing money to incur carrying-costs just like other stocks of barren goods. This led him to the famous prescription of 'stamped' money, with which his name is chiefly associated." Incidentally, Keynes remarks, "I believe that the future will learn more from the spirit of Gesell than from that of Marx." (General Theory of Employment, Interest, and Money, pp. 356, 355.)

[6] The Natural Economic Order (American translation), p. 44.

[7] Address, 1320 Princeton Avenue, Birmingham, Ala.

[8] Address, 4444 West Twelfth Avenue, Vancouver, British Columbia.

[9] Address, Care Stanley Nott, publisher, Fitzroy Square, London, England.

[10] Address, 120 Boylston Street, Boston, Mass.

[11] Address, 2 Princess Crescent, London N. 4, England. See his Free Money, Search Publishing Co., London, 1933.

[12] Address, 465 West End Avenue, New York.

[13] Address, 309 Madison Street, San Antonio, Tex. See his bulletin, Secret of Money Power, Free-Economy Publishing Co.

[14] Address, 2114 Fifth Avenue West, Seattle, Wash.

[15] Address, 619 Walnut Lane, Haverford, Pa.

[16] When Capital Goes on Strike, Harper & Bros., New York, 1938.

with the declining value of the taxed deposit dollars. He aimed to design a mechanism which would fit into our existing (fractional reserve) Federal Reserve System, without requiring or causing organizational changes in the banking system. He has reason to believe that he succeeded both in doing this and in working out a technically feasible method of making the holding of money costly.[17] Relatively simple means can be devised for insuring that, when pressure is put on the holding of money, holders can feasibly go only into goods and services and not into time deposits, gold, foreign exchange, checks of others, matured drafts, short-term assets of banks, etc.[18]

The author believes that a good case can be made in theory for imposing carrying costs on both currency and deposits and for requiring that the recipient of money use it for some purpose within a reasonable length of time after its receipt. He believes an intrinsically harmful privilege was inadvertently granted to money holders when the state drifted into supporting with its court machinery those fortified obligations which money-lenders found it convenient to introduce as a medium of exchange, and that the state would do well to neutralize the privilege. It seems not unreasonable that a carrying charge, a demurrage charge, be permanently imposed on money to insure its use for the purpose for which it was created.

However, even if people were to concede the theoretical validity of a permanent demurrage charge (which could be reduced in distant years if the savings of the community should become inadequate to provide the requisite new capital goods annually) for the purpose of taxing laggardly used funds into more rapid action,[19] they would probably rebel at the nuisance of handling a currency of changing value. Realizing the unpalatability of such a currency, the author has recently worked out a modification of his original mechanism for impelling money into use,[20] a modification which taxes bank deposits[21] but leaves currency alone. The modification follows:

Prior to the imposition of a tax on deposits, the Federal Reserve banks should distribute to the member banks a quantity of new, distinctively marked coins and currency roughly equal in amount to the

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[17] See the paper "The Proposal To Tax Hoarding," discussing the author's plan, by Emile Despres, senior economist, Federal Reserve Board, in "Papers and Proceedings" of Fifty-first Annual Meeting of American Economic Association, American Economic Review, March 1939, Supp., p. 226. Despres writes: "A variety of technical questions is raised by the scheme. * * * It is probably valid to assume, however, that it is technically feasible, through some variant of Dahlberg's plan, to make the holding of money costly."

[18] See chs. VII and VIII in When Capital Goes on Strike, 2d ed., 1938. For a discussion of objections to the author's plan and possible consequences of its adoption, see Clarence V. Smazel, We Can Abolish Depressions (booklet published by himself), Lansing, Mich., 1940, pp. 20–28.

[19] The composite figures of the 15 largest banks in this city reveal that in the quarter-year just ended there was a continued shrinkage of loans for the fifth successive quarter and a further piling up of cash, so that these banks now have a larger proportion of their assets lying idle in the form of cash and a smaller proportion employed in loans than ever before. Cash on hand and due from other banks constituted 35.5 percent of the assets of these 15 banks on September 30, compared with 34.6 percent on June 30, 1938, and 29.3 percent on September 30, 1937. From news item, "Idleness of Money Reaches Peak Here," New York Times, October 9, 1938, III, p. 1, column 1.

[20] When Capital Goes on Strike, 2d ed., pp. 70–72.

[21] The tax should under certain circumstances properly bear on time as well as demand deposits. True, time deposits are always "invested"; but, in the same sense, so are demand deposits. As we have seen (p. 50), the issue is not whether money is invested, but whether it is being rapidly used. Time deposits are not mediums of exchange, but they are, in the main, "converted demand deposits" (cf., p. —) which may be moving slowly. It would be feasible to place a tax on only demand deposits. In that case, however, the quantity of time deposits would have to be legally limited to bear a certain ratio to the prevailing quantity of demand deposits. Were this not done, a tax on demand deposits would lead to a wholesale flight of demand deposits into time deposits.

quantity of coin and currency in circulation.[22] Then, after the new coins and currency have been distributed, the United States Government should announce that if the day ever arrives when the total quantity of coin and currency in circulation expands to some pre-announced figure (such as, say, $8,000,000,000), then all outstanding coin and currency will be accepted (in payment of United States taxes) as worth only, say, 95 cents on the dollar, and that after that devaluation date only new coins and currency will be accepted at par. (It could also be part of the proposal—should devaluation ever become necessary—that the banks be instructed to replace all old coin and currency with new, whenever old coin and currency is handed in to them; also that all old coin and currency that is not turned in and retired be devalued a second and third time if and when additional coin and currency devaluations are made necessary.) The Government would also regularly announce to the public (through its daily Treasury statement) the changing volume of outstanding currency, so that people could follow the volume figures as easily as they now do, for example, the "Dow-Jones averages."

With a threatened penalty placed on undue coin and currency expansion, owners of demand deposits logically would not seek to increase their holdings of coin and currency when the volume outstanding approached the limiting figure. They could thus, on the whole, be prevented from fleeing into coin and currency if their deposits were taxed. Under an arrangement such as that described, it is highly unlikely that outstanding coin and currency would ever reach the deadline figure. Should they ever do so, however, a profit of 5 percent on the volume outstanding would be realized by the banks, a profit which the Government would, of course, divert to itself as Federal tax revenue. In any event, the arrangement of providing for a penalty on an excessive expansion of outstanding coin and currency insures that we could, under a hoarding-tax proposal, continue to use coin and currency of the general form now in use.

Thus, in contrast to the stamped-scrip proposal which would tax currency but leave deposits alone, the author would tax deposits but leave currency alone.

Revenue Possibilities of a Tax on Deposits.

A tax on deposits which did not (except at rare intervals) impinge on currency to cause a nuisance in handling it, might—if levied on only large deposit accounts—meet with considerable political favor. The suggestion to "tax the idle billions" might have great political appeal if the tax bore only on the accounts of big depositors who, of course, derive most of the benefit from the imperishability of money.

With the exception of assets held in the form of money, practically all kinds of property today are subject to taxation. "We tax incomes, profits, pay rolls, capital gains, amusements, club dues, imports, personal property, and real estate. We tax everyone who does any business. * * * We tax everyone—*except the man who has a million dollars lying idle in the bank.* * * * Property in the form of a bank deposit * * * may be held idle for years without costing a cent for maintenance, storage, or insurance. * * * A tax on

[22] In November 1939, coin and currency in circulation totaled about $7,480,000,000, of which $580,000,000 was in coin and $6,900,000,000 in currency. (Federal Reserve Bulletin, January 1940, p. 29.)

bank deposits (with proper exemptions) would be good for business. Like a tax on land, a tax on idle funds would discourage their being held out of use."[23] Perhaps money should more properly be taxed than some other forms of property such as consumers' goods.

In these times of unbalanced budgets and chronic unemployment a tax on deposits might provide a splendid source of revenue. Our banking system has deposits of over $50,000,000,000. Even a 2 percent annual tax (imposed monthly) on only those deposit accounts which have average monthly balances of over $5,000, would—in addition to stimulating production and broadening the base for other kinds of taxes—generate an appreciable revenue for the United States Treasury. Thus, even if every argument for a tax on big deposits as a recovery measure were fallacious, such a tax is recommended by its revenue-producing features. Moreover, far more than sales taxes and real estate taxes, it would bear on those who are most able to pay.

Today, the State of Illinois collects a tax on deposits once a year. But a single State cannot feasibly prevent wholesale evasion. Over the tax date, deposits move to banks across the State border, or depositors remove their deposits from the banks' books by buying bank assets, and then sell them back to the banks later. Such escapes, and other alternatives to incurring the tax or buying goods, can, however, be rather easily provided against if the tax is imposed on a national basis.[24]

Deposits, unlike other property, are singularly easy to assess. They always have their value expressed in terms of dollars, so that political discretion is automatically excluded when they are evaluated for taxation purposes.

Effect of a Tax on Deposits Upon Entrepreneurs.

For the last 8 years the Federal Government has made a practice of injecting on the average over $3,000,000,000 of new purchasing power annually. It has discovered, however, that each annual injection circulates but a little while and then ends up stagnant in the hands of people who have no inclination to keep the money moving. Under such circumstances it might be well at least to insure by means of a deposit tax that the usefulness of the stimulus does not wear off, and that further injections will not be needed.

More important than the revenue aspects of the deposits-tax proposal is the question whether such a tax would lead to a greater monetary demand for goods. Might not depositors simply sit and suffer the tax? With selfishness assumed to be the mainspring to action, would a money tax provide a force that would impel depositors to pour money into both consumers' and producers' goods more readily? Again, what would a tax on deposits do to the supply of money and to the incentives which lead to the creation of money? For the full employment of men and machines, it is not enough to insure only that money be exchanged by its recipients as rapidly as the creators of money disburse it, desirable as such behavior may be. We must also insure that a supply of money be created by borrowers

[23] George Richmond Walker, in a communication to the New Republic, January 22, 1940, p. 118.

[24] Even a flight into gold can be easily controlled. The United States Treasury need only buy and sell gold freely at a price per ounce which it lowers annually by an amount equal to the current rate of taxation on money.

at a pace which reflects an effort of entrepreneurs to run at capacity. Would a tax on big deposits provide such insurance?

Our existing quantity of money is probably far more than enough to carry on exchange at current levels of production (because much of it was created in response to Government borrowing and an artificially induced inflow of gold rather than to business needs), so that if a large quantity of deposits were wiped out through depositors' buying bank assets[25] with their funds—probably no money stringency would exist. But if the liquidation were large enough to cause a money shortage, would the tax on deposits operate to give business borrowers an incentive to create additional quantities of deposit money? It would do so only if it gave them—after meeting their costs of materials, labor, and capital—additional prospects of gain in undertaking new enterprise. Can any reemployment plan be designed to do this? Here we come to the crux of the recovery problem insofar as it lies within the framework of capitalism.

Can a social mechanism be devised to give additional prospects of gain to those organizers and managers of industry—who search out the goods and services that are wanted, the men and materials who can produce them (below a certain price), and the capital that will finance the effort to make them available—and at the same time curtail the rewards to capital, which many economists already believe to be too high? J. M. Clark, for example, says: "I believe, though I cannot prove, that capital must in the future adjust itself to a lower rate of return than it now considers reasonable, and to degrees of competition which it now considers unduly severe, or paralysis will follow, and capital will suffer along with all other interests."[26] The problem seems to be to increase the reward of the live-wire manager-enterpreneurs (who invest little or no money) and simultaneously to reduce the reward of those who inertly supply funds. Can any plan be devised to induce capital to renew its cooperation in expanding industry at a smaller percentage of the national income?

On the assumption that a simple tax mechanism can be worked out which involves no discretionary political control, would a tax on deposits tend either to increase the businessman's net revenues or decrease his costs so as to leave him with larger prospects of gain? Would it, moreover, do this at the expense of interest payments and some forms of dividends—i. e., at the expense of the return to capitalists? If so, one can feel certain that adequate money creation (rooted in the monetization of private assets) would occur. It is the author's opinion that a deposits tax not only would tend to increase the businessman's gross income by increasing the demand for his product (because it would induce a mild flight from money into goods), but that it also would tend to decrease his costs by cutting his interest charges.

To understand how this would occur we must stress the functional difference between the entrepreneur-organizer and the supplier

[25] A well-designed tax on excess reserves could easily forestall this action if thought desirable. See Chapter VII and Appendix A of the author's When Capital Goes on Strike, 1938.

[26] Proceedings of Academy of Political Science, January 1939, vol. 18, No. 2, p. 9. (Quoted by Leon Henderson in hearings before the Temporary National Economic Committee, Part I, p. 170.)

of funds—i. e., between the active manager and the inactive capitalist: For it is the uniqueness of the deposits tax that it would operate to increase the rewards of the entrepreneur-manager and employee at the expense of the capitalist; wages and management return at the expense of interest. Such results might be socially desirable. So long as society's incentives are strong enough to cause adequate money savings to be made, society probably gains nothing by having its rewards for such saving high rather than low—20 to 25 percent of the national income (as is indicated below) when 10 or 15 percent might do. In a selfish world we must bait enterpreneurs with enough rewards to make them willing to play entrepreneurial roles when funds are provided; and we must bait capitalists with sufficient rewards to get them to save enough funds for new plant. In the light of our vast inactive supply of investment funds, however, we seem currently to have made the second bait too strong. Today, it may be both advisable and possible to divert to enterpreneurs and workers as managerial return and wages much of that return which flows out to capitalists as interest and dividends.

The magazine Business Week in its issue of October 1, 1938 (p. 33), presented a table which showed how all American corporations disposed of the revenue (more than a trillion dollars) which they received in the 10-year period from January 1, 1928, through December 31, 1937. This is summarized as follows:

Gross income	$1,210,022,000,000	
Costs (materials, depreciation, depletion, and taxes)	870,914,000,000	
Balance available for distribution among workers, managements, bondholders and stockholders	339,108,000,000	=100 percent
Workers (in salaries and wages) (68.83 percent)	233,395,000,000	=75.97 percent
Managements (7.14 percent)	24,219,000,000	
Bondholders (11.71 percent)	39,696,000,000	=24.03 percent
Stockholders (12.32 percent)	41,798,000,000	

Thus over a 10-year period return to labor and management was 75.97 percent and capital return was 24.03 percent. Would a tax on big deposits operate to divert less to capital return? For example, would it operate to divert less to "interest"?

The Nature of Interest.

Unfortunately the term "interest," the premium paid for the use of money, is used both in business and economic theory to mean the reward for two different kinds of service. In a credit economy we pay interest not only to bankers who create and lend "new" money against borrowers' obligations, but also to men who merely save and lend "old" or already created money. By "old" money is meant money that was initially created through loans and investments, spent by the borrowers, and saved by those to whom the borrowers passed it on. The demand deposits which we possess but did not obtain through bank loans are "old" money. On page 55 we spoke of the fee paid to bankers for creating new money. Let us call that fee "conversion interest." Then let us refer to the fee paid by borrowers to lenders of old money as "possession interest." We then have "conversion interest," the premium paid to bankers for converting private credit

into bank credit, and "possession interest," the premium paid to "savers" for delegating to others the jurisdiction over their money.

The man who receives a reward for converting the assets of borrowers into money plays a different role in society from that of the man who receives a fee for permitting others to substitute themselves as spenders of his money. The commercial banker who spends his time and effort intelligently converting the private credit of business men performs a social service. For bankers' debt obligations, when properly designed, are efficiency tools which facilitate exchange. But men who lend money accumulations to others, directly or through the bank, may perform no service whatsoever. In fact, if they—or their agent, the bank—invest it more slowly than they accumulate it, they perform a disservice, since they restrict demand. "Possession interest" is today a return which can be obtained largely because the banker cannot offer unlimited credit and because "old money" is able to compete with the new money which the bank stands ready to create.

A receiver of dollars who tends to spend them for bread, bonds, or what-not, as rapidly as the goods against which they are issued come to market (considering the banking system as a whole), is deserving of a fee for permitting other people to use his claims to goods; but an owner who tends to spend or lend his dollars more slowly than promised production comes to market should probably be prodded into using his money.

Money saved out of income must be reconverted into monetary demand at a velocity which keeps our "employables" fully employed, or "saving" becomes unsocial. The timing is as important as the saving. When there is full employment and activity, society can justifiably permit one man to pay "possession interest" to another for the privilege of substituting himself as the spender, for the saver of money claims is then rendering a service to another individual which is not simultaneously a disservice to society; but when there is serious unemployment, society should probably limit the reward of "savers" of claim checks against society's goods by means of a deposit tax, since their saving stifles the opportunity of businessmen to redeem in goods their promises to produce.

"Conversion interest" is a fee for a service rendered. Even under a system of mutual banking, such as Proudhon and Bilgram advocated, it would have to be paid. "Possession interest," on the other hand, seems at times today to grow out of a special privilege. In an era of scarcity when men save by actually foregoing the filling of their pressing wants, "possession interest" may well be a reward for postponing consumption and saving money. But in a productive era, when saving is institutionalized and money accumulations are made largely by people whose spontaneous wants are more than satisfied, "possession interest" is more probably a reward for not hoarding than a reward for saving.[27] Today it represents in the main the price paid in order to overcome the hoarding privilege accidentally given to savers by our processes of money creation.

Both the state and the historic church in its laws against usury have tried at times to prevent owners of money from taking advantage of the favorable bargaining position which institutional arrange-

[27] Charles O. Hardy says: "Interest serves not so much to induce saving as to induce those who save to forego the maximum of liquidity and safety * * *." Brookings Institution, The Recovery Problem in the United States, Washington, 1936, p. 360.

ments have given them, but their restraints have never been effective. The imposition of carrying charges on money might prove to be a more feasible alternative.

Interest Rates Under a Tax on Deposits.

Since both "old money" and "new money" are equally useful for carrying on exchange, borrowers do not care which of the two kinds they get; they are as willing to pay a "saver" 6 percent for the use of existing money as to pay a banker 6 percent for the creation of an additional supply of it. The cost of "old" and "new" money is always competitive and approximately the same. This cost of money, interest rates, is determined by the supply and demand for money at various prices. Consequently a tax on deposits would cause interest rates to fall if it caused funds to be offered for investment faster than it caused the demand for capital to rise.

Since a tax on deposits would immediately put pressure on holders of money to rush for goods or securities, the effective supply of money would increase immediately. Unless the businessman's demand for such money rose simultaneously and to a corresponding degree, interest rates would drop. Although a deposit tax would undoubtedly increase the businessman's demand for funds because it would vivify business activity, the increased need for money would probably be as nothing compared with the increase in funds offered for use, with the result that interest rates would probably decline in line with the severity of the tax. That is, a tax of 3 percent on deposits would probably decrease the yield on several kinds of paper by about 3 percent. Short-term paper, and bonds nearing maturity, for example—which are both nearby alternatives to money—would probably sell at premiums of close to 3 percent.

Moreover, if the tax on deposits were set up as a permanent arrangement, intended permanently to counterbalance the carrying charge which industrial products naturally carry, and depositors were convinced that the tax was likely to be permanent, the effects might permeate the whole interest-rate structure. Long-term interest rates such as those on housing developments, might then also decline in line with the tax imposed. A person with $1,000, for example, if faced with a permanent carrying charge on his money of 3 percent per year, might readily invest his money with a reliable borrower for 20 years on condition that he get back only his principal after that period. That is, an investor might well be satisfied, under the conditions postulated, to invest in long-term projects at zero percent interest. He might be pleased to place his money where his principal—his original saving—would only be husbanded for him. If, furthermore, he placed his money at zero percent interest in consumer loans rather than in capital loans, the Nation's standard of living and not its relatively excessive plant facilities would benefit from the disbursements. Thus the tax could be a means of subsidizing consumption, of diverting our excess money savings into consumption instead of as now into either unneeded plant or industrial inactivity.

A tax on money would thus tend to force the holders of money savings to pour their funds more rapidly into three channels:

(1) It would cause them to offer money to the capital-goods industries on lower terms. Then, since the cost of money would be

lower, additional capital expansion would occur. Because, however, the volume of capital-goods facilities at any given time does not tend to exceed a rational engineering balance in relation to the demand for consumers' goods, the limit to which plant and equipment facilities would be expanded would be quickly reached. The factor of increased risk of principal would soon outweigh the factor of cheaper money rates.

(2) It would cause savers to offer money in the durable goods field at such low terms that almost unlimited housing activity, for example, would result. At zero rates of interest, it is easy to visualize that the demand for capital would be tremendous in this field even though it would not be much greater in the capital-goods industries.

(3) It would, if the tax were as high as 3 or 4 percent per year, induce savers to offer their money holdings to consumers on such low terms that the standard of living of consumer-borrowers would in effect be subsidized. If the average of all interest rates were to go to zero percent in a society such as ours, in which recipients of interest payments have for a decade averaged 11.71 percent of the national income, it is obvious that 11.71 percent more of the national income would (under a money tax of the intensity postulated) go to recipients of wages, salaries, managerial return and dividends. The tax could thus play a very effective role in altering the distribution of income within the economy.

Testifying before the T. N. E. C., R. R. Rogers, vice president of the Prudential Insurance Co., estimated the three elements of interest costs to be (1) cost of money, 3.85 percent, (2) risk, 0.48 percent, and (3) cost of doing business, 0.5 percent.[28] (The "cost of money" is, strictly speaking and from society's point of view, not a "cost" but a return to investors. It is "possession interest" paid to savers for transferring to others the use of their money).

Robert L. Davidson, who also appeared before the T. N. E. C., pointed out that a 20-percent reduction in material costs would reduce monthly fixed charges on new housing by about 9 percent; that a 20-percent reduction in labor costs would reduce such charges by about 5 percent; while a 20-percent reduction in interest and amortization would reduce monthly fixed charges by about 17 percent.[29]

In summarizing information on the effect of interest rates on building costs, Theodore J. Kreps brought out that if the rate of interest on the money invested in a house is lowered from 5 to 4 percent and the amortization period extended from 20 to 30 years, the reduction thereby achieved in carrying costs is equivalent to a cut of more than 50 percent in the total outlays for labor on the job site.[30] The reason for this large effect is, in part, that the outlays for labor are made but once, whereas the outlays for capital are made year after year for the life of the investment. Obviously, few things could serve better as a stimulus to venturesome builders than a reduction in the cost of money to between, say, zero and 2 percent.

Today, "below a certain interest rate, complete liquidity is deemed preferable to financial investment. The rate of interest, therefore,

[28] Cited by Theodore J. Kreps, Hearings Before the Temporary National Economic Committee, Part 11, Construction Industry, p. 5434.
[29] Statement of Kreps, Hearings Before the Temporary National Economic Committee, Part 11, p. 5433.
[30] Ibid., p. 5455.

fails to fall to the point to which it would have to be driven in order that the whole flow of planned individual savings might find a ready outlet in investment. Taking, therefore, the propensity to hoard (liquidity preference) in conjunction with the relatively constant propensity to save, it is discovered that the rate of interest does not equilibrate the volume of planned individual saving and investment." [31] That is undoubtedly the case today. But might not a tax on big deposits operate to equilibrate savings and investment? [32] "Currently investors are holding out for the rate of return, safety, and increment in value they enjoyed while the Nation was growing rapidly, building its basic capital structures, and paying off its capital debts to Europe. That basis for confidence probably will never return, at least not to a degree sufficient to keep all our money in use all the time through voluntary processes. How long will it take owners of idle money to discover this truth and accept the inevitable?" [33]

Sooner or later we must boldly face the question whether society can function within limits which people will tolerate when it maintains rules which (1) enable money savings to be made predominantly by those people whose personal needs do not induce them to disburse the savings; (2) then permit the holders of money hoarding privileges which enable them to defer their disbursements indefinitely; and (3) automatically generate depression and hardship if the money savings are disbursed more slowly than they are received. Our present rules seem not to constitute a well-integrated machine. Perhaps limiting the privileges of capital could serve as a means of preserving the institution of private capital.

A permanent carrying charge on money of from 2 to 4 percent per year would probably be reasonable. The businessman who borrows at the bank, and is instrumental in minting our modern credit money, in effect has a 6-percent carrying charge on his money to impel him to disburse it quickly for goods and services. If it were feasible, one could not object if—to help insure an adequate market for his goods when his note matures—the business borrower wrote on, say, every $100 check that he sent out, "The value of this check declines 50 cents (½ percent) per month." In the light of the 6-percent carrying charge on money when the borrower has it, a tax of from 2 to 4 percent on it when the recipient has it, would not appear to be too high.

Should unconstitutionality forestall the imposition of a direct tax on money, perhaps the Government could forego the possible revenue and work out a plan for getting the same stimulating effects simply by arranging not to enforce those debt agreements wherein the principal of the debt does not contract—after a short interval—at the rate of at least 2 or 3 percent per year.

Or a law might be passed (under the constitutional power to regu-

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[31] A. H. Hansen. Full Recovery or Stagnation? W. W. Norton & Co., New York, 1938, p. 23.

[32] In view of the large supply of laggardly used money savings which exists today, it is apparent that it would take a negative interest rate (i. e., a subsidy to borrowers) to bring forth a demand for money which would equilibrate the supply. It is obvious, too—money being the bolstered asset that it is—that if economic forces operating under our present system of laws cannot even bring average interest rates down to zero, negative rates can be obtained only if new rules of the game are written to alter the relative bargaining powers of the various contributors to production.

[33] C. V. Smazel, in We Can Abolish Depressions (booklet), 1716 Alpha Street, Lansing, Mich., 1940, p. 13.

late the "value of money") which would require that the value of demand deposits be reduced by a few percent each year. Since the Government would not be receiving the values subtracted, a large gain would accrue to the banks. These additional profits of the banks could then be made subject to a special Federal tax of, say, 90 percent. (The banks could be permitted to retain 10 percent for service charges.) Such an arrangement would be constitutional.

Effect of a Deposits Tax Upon the Supply of Money.

If the carrying charge on money were continued after the businessman creates it through borrowing, the cost of money to businessmen would decline. Businessmen would gain at the expense of investors. Income return which currently flows from business as "interest" to inert investors would tend to be retained by the dynamic entrepreneur. Such gain would lead to additional business expansion and, after the existing superfluous and artificial quantity of money were reduced to what is functionally needed, to additional bank borrowing.

With existing money available at very low interest rates, bankers would not be able for some time to charge high "conversion interest" rates on their new loans and discounts. In fact, if pressure were put on "old money" to bid for goods and services, the volume of commercial loans would probably decline because the existing superfluity of money would seek to make itself available. The existing quantity of money would undoubtedly shrink (unless forestalled by a special kind of tax on excess reserves) until each surviving dollar was acting as the exchange instrument for a maximum amount of trade.

But suppose the quantity of dollars in use did contract to where it was the shortage of money, rather than the human reluctance to use it, which limited industrial output. Then the price offered for existing money (i. e., "possession interest") would rise until it induced commercial bankers to convert additional quantities of borrowers' obligations into money. Thus by merely lowering "possession interest" rates by means of a deposits tax, "conversion interest" rates would be kept low, and the quantity of money would be attuned to the needs of business. Both interest rates would hover around a figure just sufficient to induce bankers and borrowers to create a supply of money adequate to the needs of business.

To help prevent undue credit inflation, i. e., monetary inflation, a heavy tax could also be imposed on all credit issued against paper which does not represent goods in process.

Peculiarly enough, a deposits tax would not, in the long run, tend to result in an aggregate decrease in the country's quantity of money. On the whole, people would have more purchasing power than before. Much of what you as an individual would be impelled to spend would be income for the other fellow, and much of what others would be impelled to spend would be income for you. The money stock of a people tends not to be reduced by impelling a people to use it. From the social point of view, a tax on money would simply impel people into demanding goods, into producing goods, and into creating and obtaining new dollars which would correspond to the new goods. In the process of this adaptation a small percentage of the Nation's money would be diverted into public coffers for mutual benefits.

A TAX ON UNSPENT PORTIONS OF ANNUAL INCOME

Several men—among whom were F. I. Raymond, president of the F. I. Raymond Co., Chicago;[34] Joseph E. Goodbar, president of the Society for Stability in Money and Banking;[35] Warren S. Eaton;[36] Gordon Fulcher;[37] L. U. Bergeron;[38] and Charles S. Mackenzie[39]—submitted analytical reemployment plans to the T. N. E. C. which also found the root of unemployment in the failure of money savings to flow back promptly into industry. These men proposed, instead of a tax on money as such, a tax on that part of each saver's annual income which is not promptly respent.[40]

Goodbar writes:

> Prompt return of money savings to the monetary stream is the aim we have in mind. If owners of savings are unable to find adequate investment opportunities, they may use up their excess income either in personal expenses, or as an increase in salaries of employees, or otherwise direct it back into consumption. On failure to do one or the other, then Government taxation will be standing around the corner, like some financial policeman, to see that the excess is not withheld from constructive use.

Mackenzie writes:

> As capital will not voluntarily cooperate with labor in producing the capital goods which are now greatly needed, it seems to be the duty of Government to compel such cooperation of newly created capital in the interest of the general welfare.

And again:

> Money is a creature of the Congress * * * Congress has the right to see to it that the flow of that medium of exchange is not hampered. It has the right, which has been asserted repeatedly by the United States Supreme Court, through the medium of incentive or penalty taxation, to compel money to go to work in channels helpful to the general welfare.

Gordon Fulcher wants a "tax on underspendings," and would exempt savings which are invested promptly in capital goods. He specifies that the money must flow into that outlet. He maintains that his basis for exemption would place a premium on new corporate securities and thus enable businessmen to obtain new capital at a discount. He maintains, too, that the tax would not be a burden on business because corporations could avoid the tax either by distributing dividends or by investing their funds themselves.

This proposal—to tax annual money savings unless they are spent—differs significantly from the proposal, discussed on page 70 above, to tax annual savings as such. The proposal to tax money savings unless they are converted into physical savings rapidly, would act as a stimulant to business far more than the proposal to tax money savings as such, because people could avoid the first tax by contributing directly to industrial activity whereas they could not avoid the second in that way.

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[34] Address, 629 West Washington Boulevard, Chicago, Ill.
[35] Address, 36 West Forty-fourth Street, New York.
[36] Address, 1636 Cicero Drive, Los Angeles, Calif.
[37] Address, Chevy Chase, Md.
[38] Address, 4611 Spuyten Duyvil Parkway, New York.
[39] Address, 120 Broadway, New York. Mackenzie Plan, a monograph presented at hearings before the tax staff of the Treasury Department, September 27, 1939.
[40] Julius F. Stone, Jr., advanced a similar proposal in his book Compulsory Spending, Ransdell, Washington, 1934.

Tax mechanisms advanced by sponsors of the proposal to tax unspent annual income are quite similar. Mackenzie seems to have worked out his plan in some detail. Specifically his plan states that—

> A tax of 5 percent shall be imposed on all net general income spent or invested in new products of American industry within any calendar year and the three succeding months; and a tax of 85 percent shall be imposed on all net general income not spent or so invested.
>
> Investment that would be subject to the 85 percent incentive tax would be that which is employed in the purchase of lands, already constructed buildings, stocks and bonds already issued and outstanding, or of stocks or bonds the proceeds arising from the sale of which are not pledged, as * * * to be used in the purchase or production of new products of American industry, or in fact in anything that does not require American labor to produce.

Mackenzie apparently tries to deal with an administrative difficulty which the proposal would have. A tax arrangement which one could largely avoid by disbursing one's money, is obviously one which requires that criteria be set up to help tax officials to determine when money has really been spent (in the economic sense of having been exchanged for goods and services which employ additional labor) and when it has merely passed through "wash sales" which lead to no increase in industrial activity. Mackenzie gets at the difficulty by outlining what a real disbursement is not. Whether this is feasible or not perhaps only experiment could determine.

Even granting, however, that it is administratively feasible to determine for tax purposes whether money is really being invested or whether it is only moving through "wash sales," the proposal could only insure that unemployment would not get worse. Goodbar and Mackenzie seem to recognize this limitation of the proposal. But the other sponsors do not; they regard it as a reemployment plan. The proposal would tend to insure that the money savings of any one year would not slow down in their rate of use. But it would not operate to insure that the money savings of past years—those existing accumulations which currently reflect themselves in millions of unemployed men—would move more rapidly. It is well to insure that annual money savings move into investment, but in times of depression that is not enough. Savings of past years, too, must be made to move.

A TAX ON UNUSED DEPRECIATION RESERVES

A variation of the above proposal is that of Milo F. Snyder,[41] who wishes to have a special impellent tax apply to the depreciation reserves of corporations. He points out that, although physical plant depreciation is steady and gradual, and the reserves set aside by corporations for depreciation are rather uniform year after year, corporate expenditures for replacements fluctuate very widely. During boom times corporations tend to invest even more than their reserves, whereas during depression they tend to spend very little. Snyder proposes, therefore, that the Federal Government tax depreciation reserves (with some exceptions)—up to 50 percent if necessary—when the annual depreciation is not promptly respent for capital replacements. He accompanies his proposal with the sug-

[41] Address, 208 East Mason Street, Milwaukee, Wis.

gestion that small concerns, and possibly the first $25,000 of any corporation's depreciation reserve, be exempted from the tax.

The recent Federal "undistributed profits tax" on corporations resembled in some respects the proposal just described. It placed a tax on one part of annual income which the corporation could avoid paying only by rapidly investing its funds in capital goods or by rapidly disbursing its earnings to stockholders. Even at best, however, that arrangement insured only that money savings would not get "hung up" while in the possession of corporations. The arrangement did not follow through to insure that the savings did not get stalled after they had come into the hands of the recipients of the dividends.

INCENTIVE TAXATION: TAX PRESSURE ON ALL THE FACTORS OF PRODUCTION

Among reemployment plans of broadest sweep is that of "incentive taxation," a proposal advanced in a book of that name by C. William Hazelett.[42] Basically his plan is a whole method of approach, which proposes to use the taxing power of the State pervasively as a constructive tool for obtaining desirable economic action. Historically the taxing power, besides being used for revenue purposes, has been extensively used to discourage particular and isolated forms of economic behavior and activity. Hazelett, however, proposes to use it systematically to bear on all the factors of production, penalizing each in turn if they lessen their contributions to production. Henry George advocated a tax on land which aimed to prevent land from being less than fully used; the author and others have advocated a tax on money aimed to prevent money from being less than fully used; but Hazelett proposes tax pressures on all the factors of production to keep them at maximum production—pressures which would be low when the contributors were fully active, but increasingly severe as they slackened their efforts.

> Any solution which applies to a particular class only will fail, as they have all failed in the past. Incentive taxation should apply to all producing facilities: money, land, factories, buildings, and transportation systems. It must apply to the sources of raw materials, to capital, to monopolies, to railroads, and to one's own customers. The rate of increase in taxes as production decreases must be sufficient to keep all productive facilities in a substantial rate of production. * * * Unless the Government confiscates private property, the only people who can put these productive facilities into production are those who own or control them * * *. Since all business is organized for profit, it is intended that incentive taxation shall be too expensive for any of them to entirely take their productive assets out of production.[43]

Hazelett outlines specific measures for insuring that factories and money holders contribute fully to production, and then makes general suggestions on how to put pressure on the other contributors. His specific measures include income tax rates such as we now have, on employers who utilize a low percentage of their plant capacity, and progressively lower tax rates as they approach full employment capacity. Then he would impose a tax on the idle money of both individuals and corporations, but place no tax on money in reasonable use. The decreasing tax rates would bait plant owners and

[42] 3d ed., E. P. Dutton & Co., 1939.
[43] C. W. Hazelett, Incentive Taxation (brochure), 1939, pp. 4, 5.

managers to turn out more goods,[44] and the tax on money would insure that all possessors of money would furnish producers with adequate markets for their goods.

Thus one factor determining a company's tax rate would be its percentage of full employment; a second would be its "turn-over rate of money." The employment factor would be computed by dividing the man-hours actually worked during the year by the maximum man-hour potential employment capacity of the property. This maximum would be determined by the taxpayer himself, but a heavy penalty tax for underestimating would be provided to insure an honest appraisal. The turn-over factor would be the ratio of "real disbursements" to the average cash balance maintained during the year. "Real disbursements" would include all outlays for goods and services, for dividends, and for the purchase of domestic investments that are bought directly from the original issuers.

The tax form which Hazelett proposes would eliminate all reference to excess profits, undistributed profits, and capital gains. For the substituted tax on idle money would in itself be the equivalent of a tax on idle excess profits, idle undistributed profits, and idle capital gains. "If the tax and turn-over rates are properly set, the taxpayer should pay none of the idle money tax. But by using the money, the net income of employers and the living standards of the individual would be increased so that sufficient normal income taxes could be collected from these sources. The tax on stagnant money would substitute and require private and corporate spending in place of Federal."[45]

In theory, the withdrawal of capital from production can be countered either by a tax on big bank deposits or by a tax on inadequate rates of turn-over of bank deposits. It might prove to be administratively far more difficult, however, to review and adjudge transactions in order to determine whether money has been productively spent than it would be to impose a tax on money as such, especially so if it is necessary to give tax officials any discretionary power in deciding whether money has been productively spent. Regardless of the basis for the tax, however, it seems desirable in theory that the tax should be continuous in order that the bargaining advantages which money holders would otherwise enjoy may be neutralized. If it were not continuous, long-term interest rates would probably not be appreciably lower because of the tax, and one of the major stimuli to industrial expansion would be lost.

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[44] As a result of a Senate resolution introduced by Senator Arthur H. Vandenberg, a subcommittee of the Senate Committee on Finance (76th Cong., 1st sess.) made a report, "Survey of Experiences in Profit Sharing and Possibilities of Incentive Taxation." In that report the term "incentive taxation" was used exclusively to mean tax reductions for employers for increasing their employment and output, etc. It was given the abbreviated meaning of tax rewards only; not a meaning of tax rewards and tax pressures. Used in that sense, the possibilities of incentive taxation seem very limited. At best a temporary fillip—analogous to an inventory boom induced by an oncoming period of higher prices—could be given to industrial activity by such a recourse. In Germany in 1932 a similar effort to obtain production through tax concessions and other rewards was tried. After generating a short-lived fillip, it failed. ("Why the 'Papen Plan' for Economic Recovery Failed," Social Research, February 1934), vol. 1, pp. 83–96. According to Gerhard Colm, the effort failed because no means were devised for stimulating demand in line with production. Both—as Hazelett says—must be stimulated together: "The writer does not recommend applying only one of the incentive taxes, such as on the employer for employment, since it gives an unwarranted advantage to the owner of money. * * * If a tax is only applied to idle money, the reverse is true." Incentive Taxation (brochure), p. 12.

[45] Incentive Taxation (brochure), p. 9.

If the turn-over tax were ever entirely removed, interest rates would be too high, with the result that at full production profit margins would needlessly begin to decline, and industrial activity would begin to fall off. Of course, if it did begin to fall off, the tax on idle money could be put on again, and the ability of money holders to charge monopoly prices for the use of their money would be taken away, but until the tax was again imposed, interest rates would contain a monopoly ingredient which would make for unfairness in distribution. If the turn-over tax were kept on continuously, however, it would—except for being far more difficult to administer—be the equivalent of a tax on money in its effects on unemployment, long-term interest rates, the price level, the distribution of income, etc. It is probable, too, that it would—since it would be a tax that one could avoid by using one's money more rapidly—be palatable politically. Perhaps on that score it merits investigation. It might seem to be more just to tax money only if it is "idle" than to tax money as such regardless of its rate of use. However, money as such should have a constant carrying charge, roughly equal to the carrying charges on goods, or money will be so good as a store of value that the savers of money will be able to obtain a favored share of the national income.

Effect of a Tax on Idle Money on the Distribution of Income.

The low interest rates which a tax on idle money would generate and the continuous pressure which it would exert on money to stay in use (at whatever price would keep it in use) would probably have tremendous repercussions, first, upon business incentive and then upon the distribution of income.

Managers and stockholders want to see the reward to capital (or the pressure on capital) high enough to induce it to invest rapidly in new activity, but as soon as that end is achieved, they prefer to see "interest"—which, after all, is one of their "costs"—remain at the lowest rate that will insure rapid investment; three percent bond yields please them better than do 7 percent yields. And in society's eyes, yields of even less than 3 percent are in order if savings occur in quantities which suggest that the reward to capital is excessive.

If "oversaving" occurs—in the sense that new investment in factories, schools, residence, etc., at yields of, say 5 to 7 percent is not warranted by the current purchasing power of willing spenders—it might be well for society to modify its tax laws so that savers will be inclined to invest at 2 percent, or even zero percent return.

Not only would a tax on idle money hold down the "entrepreneur-manager's" fixed charges and make it easier for him to earn money; it would also make it easier for him to obtain venture capital. Suggested business ventures, such as housing developments, which today seem unattractive to investors because the likely yields are below what stockholders currently expect, would loom as attractive outlets. A mere 1 or 2 percent return in either interest or dividend payments together with the preservation of one's capital might seem attractive to "savers" if they were faced with inroads of a 2- to 4-percent tax on their money as an alternative, particularly so if the tax had the earmarks of being a permanent arrangement.

The businessman who is functionally active in organizing, pro-

moting, and managing new ventures would have better prospects of reward than ever before, both because his interest costs would be down, and because share capital would be satisfied with lower yields. He would expand industrial activity as a result. Business expansion in turn would tend to absorb the unemployed. After a time, however, the employers would be forced to compete against one another for the available labor, and wages would begin to eat into the increased net earnings. By such a sequence of repercussions would a tax on idle money gradually come to divert to wages and salaries an appreciable part of the national income which now goes to inert investors. A portion of what had been a business cost and diverted to capital, would still be a business cost, but diverted to labor. Today, under the chronic unemployment that prevails, workers tend to bid against one another for jobs; under incentive taxes on idle money investors would tend to bid against one another for men.

Oddly enough an arrangement which impelled people to spend their money more rapidly would help them to accumulate more genuine savings for their old age. For it would impel them to convert their money savings—which are nothing but the I. O. U.'s of business—into titles and shares to real homes and factories. And if money were put into securities, real estate, etc., or into savings banks which in turn are driven to spend it for tangible investments, either reserves of equities or savings-bank credits could be built up which frugal savers could reconvert into cash in later years.

Under a tax on idle money, expansion from our present low level of industrial activity would stop only when competition between producers for available labor began to wipe out the more inefficient concerns. Inefficient producers and unwanted products would in time fall by the wayside. Thus default liquidation generated by a shortage of labor, and not by the retreat of capital (induced by dissatisfaction with prospective yields) would be the factor limiting industrial growth.

Default liquidation is probably an essential to a competitive economy. Hazelett maintains that all producers in a competitive economy should operate at full speed and accept whatever price they can get for their contributions. If they are unable to get a price for their contribution which enables them to remain at their preferred activity, society should permit the dollar voting of consumers to force them to liquidate their private debt structures and shift to other work. And if they hold up the price of their products artificially, and the demand for their product is inadequate, society should either change the rules so that demand cannot feasibly be defective or so that prices cannot feasibly be administered.

Today if business concerns begin to shut down, a government cannot tell whether they are shutting down because savers of money have unjustifiably elected to withdraw from the markets or because the prices which the concerns ask for their products are so out of line with other life values of consumers that dollar voting relegates the concerns to bankruptcy. Occasionally, today, it is the privilege to hoard and at other times unwarranted price quotations which are responsible for shut-downs. Either action can disrupt industrial production. A tax on idle money attacks both institutional obstructions, the first directly, and the second indirectly. This contrasts with the approach of

compensatory spending which attacks neither arrangement directly or indirectly, but simply seeks to counterbalance the unemployment which either hoarding or price pegging provokes.

Effect of Incentive Taxation on Monopoly Prices.

Hazelett realizes that if his suggested tax on idle money were used, employment would probably be generated without recourse to his employment tax and other taxes which he proposes to place on laggard contributors to production, because, as he says, "A general depression is a strike of capital." [46] However, he believes, and probably correctly, that the other taxes might prove highly useful in attacking a second major economic problem, namely that of monopoly prices.[47] His suggestion to tax land, labor, factories, railroads, funds, etc., if they are less than fully used, is a pervasively promising suggestion for breaking up and forestalling monopoly prices throughout the economy. Although few factories, labor groups, landholders, or railroads are currently withholding their contributions from the markets, many of them have the power to withhold. In good times—and frequently at other times—they either use or threaten to use that power to raise their prices and incomes. Incentive taxation seems to be a promising technique for insuring that no group obtains monopoly prices for its contribution to production by threatening to withdraw from production.

All people with power to take property or services out of production if their prices are not met have monopoly power. As brought out on page 15 above, all contributors to production in a specialized society must—if they desire full production—exchange their products and services in the markets as rapidly as they can produce them. To do this they must obviously accept the best price offers made for their products and services rapidly enough to permit them to stay in full production or else shift to other production where the full product is sold promptly at some price. If one grants the right to withdraw from production, one automatically grants the power to generate unemployment as well as some power to obtain monopoly prices. Take away that power to withdraw, however, and the monopolist at most can only generate unjust values. Unemployment could no longer occur. If monopolists were required to re-spend their incomes as rapidly as they received them, their "administered" prices would not make for unemployment. If every price in our economy were an "administered" one, unemployment would not result so long as every dollar were re-spent. A dollar spent by a monopolist creates as much work as a dollar spent by anyone else, even though the monopolist may be getting more dollars for his efforts than competitive dollar voting would give him.

If money were taxed into taking part in production at the best price it could get, it would probably be unfair to permit other contributors to production, such as landowners and organized laborers, to withdraw from production unless their price terms were met. Although relatively full production could continue even if these other contributors were privileged to withdraw, since granting them that privilege would not cause as much inactivity as granting capital the right to withdraw (unless the men who went out on strike numbered in the millions), in-

[46] Incentive Taxation (2d ed.), p. 15

[47] Ibid., pp. 125–127.

justice in distribution would simply be reversed thereby. The rules of the game, would, under the altered conditions, give to organized labor the privilege and preponderant bargaining advantage which today is given to capital.

Hazelett says:

Incentive taxation would require labor and capital to do what the farmer already does, that is, to accept the best price obtainable for their services which permits of full employment; the condition of maximumu income for every class. Incentive taxation would say nothing about what anyone should do with his hands, his money, or his property except to use them * * *.[48] The farmer and nonunion labor can never receive an equitable price for their services unless they unionize and use the right to strike, or eliminate the right of capital and labor to strike.[49]

According to Hazelett, if farmers were to follow the policies of labor and capital in the cities and ask unreasonable prices for a bushel of potatoes or wheat regardless of quality or full measure, or refused to sell food at all, labor and capital would soon decide that the right to strike is not such a sacred right:

The farmer represents the only great class which already follows the correct price policy for all, namely, that of getting the highest prices that can be obtained at full production.[50]

Is it possible to conceive of any business, regardless of size and whether it be a monopoly or not, performing any greater service to the public than to sell its entire capacity output to the public at a price the public can and will pay? It is not. If a railroad gives us the maximum amount of travel and freight haulage possible with its facilities at prices we can and will pay, no form of regulation, except one to stimulate this condition, is needed. * * * Under incentive taxation, if a public utility or other monopoly raised its rates or prices beyond what the public would pay for its entire capacity, people would decrease their use of the service, and down would go the revenue from the customer and up would go the utility's tax rate. This the utility could not afford. However, if the demand for the use of, say, electricity exceeded the capacity of generators and distributing equipment, the rates could be raised only to that point where the output could still be sold, and additional profits could be earned. Since incentive taxation proposes to tax idle profits, these would either be paid out in dividends or wages or put back into additional equipment to improve and increase the service, since a profitable demand therefor exists. Incentive taxation applying to the customers of monopoly would assure the monopoly of a maximum demand for its particular public service.[51]

Incentive taxation—if assisted by income taxes to modify the distribution of income—might be very helpful in generating a system of beneficially flexible prices.

If the spending of money savings were induced, still another powerful pressure against price fixing would probably be built up. If those people who were taxed into action had no choice but to pay monopolistic noncompetitive prices for the things they are impelled to buy, they would probably be moved to attack all institutional arrangements which favored price fixing; they would certainly be more incensed at price fixing than if they had the privilege of hoarding whenever they deemed prices to be outrageously high.

Investors, too, would have an incentive to break down whatever monopolistic prices existed in whatever fields of activity they might seek refuge in because of the pressure on their money. Today, under uncontrolled demand, they can simply say, "Prices are too high," and for years defer their investment spending. With pressure on their

[48] Incentive Taxation (brochure), p. 19.
[49] Incentive Taxation (2d ed.), 1936, p. 54.
[50] Incentive Taxation (brochure), p. 15.
[51] Ibid., p. 16.

money, however, they would be impelled to invest (in housing, etc.) nonetheless, and be given an incentive to assist in the cutting of the repellent prices.

It would seem far better for society to force spending and to give people an incentive to clean up the business world in which they have to spend than to try to arrange prices so as to bait them to proceed. For under forced spending the country would at least be producing goods and feeding itself while it wrestled with its price situations, whereas under hoarding privileges it first collapses into unemployment and then patiently waits for Government committees and trade commissions to wrestle with the evil of monopoly.

Effect of a Tax on Idle Money on the Price Level.

If competition between employers for labor were to go on under conditions of full employment so that only plants making socially desired products survived, and unwanted activities were wiped out through default liquidation, the price level would not run away. Enforced movement from money into goods would probably raise the price level at first (since movement the other way—from goods into money—makes the price level fall) but prices would tend to become stable when labor costs eat into profit margins so far that price sacrifices, which default liquidations bring on, begin to occur.

The price level would rise rapidly under a tax on idle money, but, on the other hand, an upward spiral of prices requiring either governmental price fixing or governmental resignation to price inflation would probably not result. For no new money would be coming into the money stream which was not rooted in a transmutation of business values by bankers and business men themselves—by men who operate in free and open markets. Under a tax on idle money additions of fiat money to the money supply would not occur.

Under such a tax, the price level would probably rise to a higher level than that of 1929, for example—because the urgency to go from money into goods would be even greater than it was at that time—but the price level would probably not rise to the levels of, say, 1918–20, when there was not only a strong inclination to spend but also a large superimposed injection of monetized Government debt added to the effective demand for goods.

The "joint resolution" of Congress which created the Temporary National Economic Committee specifically directed the committee to "investigate the subject of governmental adjustment of the purchasing power of the dollar so as to attain 1926 commodity price levels." [52] A carrying charge on money, or a tax on an inadequate rate of turnover of money, would bring on a rise in prices. Whether a 1926 price level would be reached or passed would all depend upon the size of the incentive tax imposed.

MOTIVATION OF PRIVATE SPENDING BY "RESTORING CONFIDENCE"

As brought out on page 64, there are two kinds of recovery proposals of the broad type which seeks full employment by inducing money savers themselves to use their money in private industry at

[52] 75th Cong., 3d sess., Public Resolution No. 113 (S. J. Res. 300).

a faster rate. The first kind, which has just been reviewed, seeks by means of tax pressures to force savers to disburse their money. The second, now to be considered, seeks by means of legislative rewards to lure them into disbursing their money.

LIGHTENING THE SOCIAL CONTROLS OVER CAPITAL

The general attitude of sponsors of this second approach is that recent "punitive and reform" legislation has "destroyed the confidence" of potential investors, and that if such legislation were modified, capital would go to work. Joseph D. Goodman,[53] in a pamphlet sent to the TNEC, enumerated many legislative changes which he believed would restore confidence. Among his 34 suggestions were the following:

(1) Amend the National Labor Relations Act.
(2) Repeal the undistributed-profits tax.
(3) Repeal the capital-gains tax.
(4) Reduce income-tax rates in the higher brackets to encourage venture capital.
(5) End Government competition with the utility companies.
(6) Reduce Government expenditures in order to balance the Budget and reduce the national debt.

Writing in his syndicated column, Gen. Hugh S. Johnson argued for similar changes:

> Private money must go to work. * * * It is dammed up in idleness by the billions. Why doesn't it go to work? The answer is clear. The Government won't let it. The Federal undistributed-profits tax prevents a man from building up a new business out of profits. He must distribute all he makes to his stockholders, or pay a prohibitive tax. * * * The income tax does the same thing on another front. Money is only risked in industry in the hope of gain. Money in such large blocks as would make substantial employment, returns large profits. * * * If the capital is risked and lost the owner is through. If it is risked and gains any large amount—even though the percentage of profit be, say, 3 percent, Federal taxes take 60 percent, 70 percent, and sometimes as much as 100 percent of the whole profits. Why should the owner risk it? It is cheaper and safer to leave it idle. * * * This is the most important single fact of this moment. The Federal tax policy has stopped progress and reemployment. It could return larger revenue in another way. If it is not changed it will bring a new depression with as much suffering as the last.[54]

In an article, Idle Money—Idle Men,"[55] Wendell L. Willkie expressed a similar view when he wrote:

> In short, it is fear—fear as to what the Government is going to do, fear as to what may happen to industry—that has kept the investor from providing business with capital and has prevented the reequipment of established industry and the launching of new business ventures.

In an editorial, "Idle Money and Men," on May 18, 1939, the New York Times wrote in the same vein. It said:

> The President has recommended that the Temporary National Economic Committee investigate the reasons for the idleness of money with a consequent idleness of men. If the Committee undertakes this task seriously it will have to look into some of the policies of the administration. * * * The

[53] Address, 611 West Upsal Street, Philadelphia, Pa.
[54] United Feature Syndicate, October 26, 1937 (New York World-Telegram of that date, p. 27).
[55] Saturday Evening Post, June 17, 1939, p. 63.

briefest consideration of some of these policies and, above all, of their cumulative effect is enough to indicate why American capital is timid. The effect of the undistributed-profits tax has been sufficiently dilated upon. The excessive and one-sided capital-gains tax must alone have an effect of the first importance. When men who are asked to put their money into new business ventures stand to lose the entire amount if they fail, but to retain only a minor fraction of their gains if they succeed, the timidity of risk capital cannot be regarded as mysterious. * * * The "emergency" money powers granted to the President and the unbalanced Budget add to the elements of uncertainty. The workings of the Wagner Labor Act and heavy pay-roll taxes add to the difficulties of employers and place serious obstacles in the way of full employment.

The President, as his letter to Senator O'Mahoney illustrates, has ignored or underrated these psychological factors. He tends to view "the financial machine" as if the difficulties were purely in "the mechanism." But American capital is idle largely because of understandable timidity, and idle money is certainly one of the major causes for idle men.

Senator Arthur H. Vandenberg also believes that existing taxes are repressive, and argues for tax exemptions and tax rewards as a desirable means for stimulating employment. He terms such exemptions and rewards "incentive taxation," which he would have replace "punitive taxation" as represented by the undistributed profits tax.[56] For example, he advocates tax concessions to producers if they increase their output. But Vandenberg does not propose to use the taxing power in the customary manner. He would use it only in the sense that he would progressively grant offsets and reductions in taxes in return for desirable economic behavior. (Evidently, too, Vandenberg has a different definition of "incentive taxation" than the author has.)

It has already been brought out that there are many people who believe that a major obstacle to full employment lies in a "financial machine" which inadvertently bestows upon capital the opportunity to hoard, and that these people believe that the privilege should be modified. The parties quoted above, however, tacitly premise that the privilege should be continued in its present magnitude. They tacitly premise that the freedom of private enterprise should include the privilege to withdraw from private enterprise, and that if hoarding is resorted to, concessions should be given to the hoarders to make them change their minds. They would resort to what the author calls "incentive concessions" instead of "incentive taxation" to spur economic activity. Traffic officers deem automobile speeding to be an evil, and try to check it with fines and penalties. The men quoted above, however, even though they recognize the idleness of money to be an evil, would check it, not with penalties, but by reducing as it were the culprit's license fees, property taxes, income taxes, etc., as a reward for behaving as he should behave in the first place.

Just as one could undoubtedly dissolve a general strike of labor by luring the workers back into production by reductions in their property taxes, so one could undoubtedly lure idle capital back into production by systematic reductions in income taxes, corporation taxes, etc. If that recourse were resorted to, however, what would one do after compensatory tax concessions had been granted at the beginning of several depressions and the stage had arrived where no taxes remained to be reduced to furnish the necessary incentive to renewed action? It seems that basically the hoarding privilege should be

[56] See New York Times, October 29, 1937, p. 7, column 2. Cf. his statement in Senate Report No. 610, 76th Cong., 1st sess., on "Survey of Experiences in Profit Sharing and Possibilities of Incentive Taxation," 1939, p. 6.

countered with laws and rules which make hoarding unfeasible, and that to grant tax concessions until the bait overcomes the desirability of hoarding will only lead to accentuated concentrations of income and wealth and to the development of more violent depressions in the future.

If the privilege to hoard is continued as the men mentioned above premise it should be, the quoted sources are probably correct in their view that venture capital will not be forthcoming unless certain legislation is changed. After all, ours is an economy which both relies exclusively on the prospects of profit to induce our savers to invest and simultaneously provides the savers with an island of safety to which to retreat should the profit prospects appear too dim. So long as we provide savers with the alternative of safely withdrawing from production, there is little doubt that new tax policies and new changes in the rules of the game might easily induce capital to remain idle. Our Congress may indicate through its legislation that it desires high income tax rates in the higher brackets, that it favors the existing S. E. C. regulations governing the issuance of new securities, that it supports Government spending for relief purposes, etc., but if its legislation causes money holders to "lose confidence" in the profit possibilities of the future, unemployment will result from its legislation. Today Congress seems to have the choice either of requiring that capital continuously offer itself to the markets for the best price it can get for its services—whatever that price may be (in the same manner as farmers, most workers, and dwelling owners in effect do)—and then of passing legislation which on its merits the community endorses, or—if it elects to permit money to withdraw from the channels of trade—of eschewing all legislation which might cause money holders to abstain from spending. If one makes it both moderately safe and profitable for money to shun private activity, one is naturally limited in the degree to which one can decrease the rewards for taking risks, justifiable though such decreases may be on sociological grounds. Businessmen generally contend that the Government must lighten its regulation and control over potential investors until those investors deem it advisable to invest at higher speeds. The logical alternative exists, however, to drive money by a tax on loitering, instead of tempting it into action by the removal of taxes which chill its fervor.

Were labor to withdraw from production on such a wholesale scale that millions of men were thrown into unemployment, the withdrawal would be called a "general strike." Our Government might even break up such a withdrawal with its Army and police force in the manner that the French and British Governments did in recent times. But when money capital withdraws from production and idle money generates idle men, the resultant unemployment and liquidation is suffered without public criticism of the laws which permit money capital to withdraw. Even when the Government acts to neutralize the effects of the withdrawal by borrowing the idle money at interest and then spending it for relief and public works, many possessors of idle capital advocate a balanced budget in order to "restore their confidence."

In time of war or in time of national danger, when it is customary to forbid labor to withdraw from the productive process, it is doubtful whether the State can safely continue to give to money savers unlimited liberty in deferring the use of their money claims.

If capital is to be permitted to withdraw from production every time it sees legislation that it does not like, improvement of the social order will probably always be difficult. Under such a set-up a government might always have to tolerate business arrangements—whether harmful or not—that potential investors demand upon the threat of strike.

George Richmond Walker vividly and vigorously designates those with money to invest as a "super-supreme court."

> Enact reforms, and they will be declared objectionable. Elect your Congressmen and President, and their efforts will be frustrated. Those with money to invest have power; they are above the Government and above the law; * * * the people may vote but they will rule * * *. They hold prosperity in their pockets, and they will dispense it when they please * * *. The right to hoard is the power to sabotage. It is the right to sell without buying, to interrupt the processes of trade, and to bring productive industry to a standstill. The money-hoarder, not the Government, is the enemy of business * * *. The privilege of not spending is the power to obstruct. It is a power that is pervasive, subtle, and unseen, for it lies not in acting but in not acting. It holds the Nation in its thralldom at the present time * * *. It blocks the creative energies of the people * * * and makes mockery of their democratic institutions and their freedom.
>
> The power is felt by the people * * * but it is not understood. They blame each other or the Government, while they hope for better times. Their thinking is entangled in a myth: "A man's money is his own," they suppose, "and you can't force him to spend or invest unless he wants to." This myth is carefully preserved. It is sacred to the theory of capitalism. Bankers, professors of economics, and Government officials are agreed: "You must induce investors to invest; you cannot force them." Very well. But see what this implies:
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> Investors are induced by profits. No matter how much money they have to invest they have a right to invest it all at a profit or to hold it idle * * *. But how is it possible to invest at a profit? Industry is operating at 60 percent. Industry does not need new plants, and therefore it is irrational that new ones should be built. There is no market for the products that new plants would turn out * * *. And so we must make up our minds to this fact; investment will not take place on any substantial scale so long as there is excess plant activity. We must wait until excess capacity has dwindled through depreciation, obsolescence, and bankruptcy. The only way to induce investment is to let deflation run its course. Let wages fall, let prices decline, let machinery rust, let produce rot in the fields; it is the way to recovery under capitalism.
>
> The evil power of capitalism lies in the right to hoard money; it does not lie in the private ownership of the means of production. Karl Marx was wrong. The owner of a factory must run it or he will go bankrupt with upkeep and taxes. The worker must work or go hungry. The farmer must sell his crop or else it will spoil. The shopkeeper must go on doing business or he will go broke. But those who have money are not under any compulsion. Money will keep. It costs nothing to hold money idle.[57]

That business would recover vigorously today if legislation disadvantageously affecting the incomes of people in the upper income groups were modified is highly probable. From 1929 to 1933—when industrial activity was contracting even though our currently criticized legislation was not then on the statute books—"confidence instilling" legislation would not have brought on recovery, but in 1940, after a decade of factory depreciation and machine obsolescence, it might easily do so. As soon as the present deficiencies and depletions were provided for, however, and the volume of new investment

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[57] In an article "Set America Free" in the October 1939 issue of Free Economy. See also his article "The Case for Monetary Reform," Dynamic America, November 1939, pp. 8–13.

went beyond a certain ratio to the purchasing power available for consumers' goods, the prospects of return would again look dim to investors, and capital would once more withdraw from the industrial process. Lightening the social controls over capital might easily make for a short lived boom, just as a rapid injection of billions through a government spending program might do, but the boom would be purchased by diverting additional government benefits to people who probably need them least, and without removing the particular privilege which is probably one of the major obstacles to continuous operation of industry under private enterprise.

GOVERNMENTAL INSURANCE OF BUSINESS SOLVENCIES

Two other proposals—of more interest, perhaps, than importance—are those suggested to the T. N. E. C. by Joseph Freeling[58] and Joseph Greenberg.[59] Greenberg also desires to spur investment by increasing business confidence, but he proposes to achieve it through a system of insurance. He would have businessmen insure their solvencies with the Government at a premium which would vary in size with the values and time periods involved. Even if an arrangement such as he suggests were feasible, which is highly doubtful, it could at best only even up or distribute the losses from business failure; it could do nothing fundamental toward forestalling the oncoming of business depression itself.

PUBLICITY TO INSTILL CONFIDENCE

Freeling premises that there are many people who both need consumers' goods and have purchasing power and yet defer their buying unduly. He would instill in these people a greater propensity to spend by organizing the radio, the press, the motion pictures, the schools, etc., to present to them "reasons" why they should buy sooner than later. Freeling is undoubtedly correct in believing that in times of depression consumers in the lower-income groups are more tardy in their spending than at other times, but it is very doubtful that such public appeals as he suggests would instill any more confidence in consumers than did the extensive "Buy Now" billboard campaigns which characterized the early years of the 1929 depression. There is good reason to believe that the propensity of consumers to spend swings up and down with the indexes of employment; that it is not in itself a causal force but a variable which fluctuates with variations in the volume of investment spending.

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CHAPTER IV

MONETARY-INSTITUTIONAL REVISION: ABOLISHING OR PENALIZING DEBT AS A FORM OF CONTRACT

INTEREST PAYMENTS MADE UNCOLLECTIBLE

Even granting that means can be devised to reduce interest rates to zero, to reduce the interest burden to nothing, and to prevent falling prices, foreclosures, and disruptive changes in ownership from occurring—that is, even granting that means can be employed largely to forestall the customary ravages of debt, there are those who, like H. F. Stoke[1] (in a communication to the T. N. E. C.), raise the profound question, "Why should not the State abolish the debt agreement as such as a permissible form of contract?" His is an unorthodox but valid question which the world largely fails to ask. Despite the fact that for centuries governments have enforced the debt contract as a permissible form of transaction, Stoke suggests that private interest charges should properly be made uncollectible by law. For, in his opinion, enforcement of the debt contract operates in the long run to choke industrial activity.

As brought out on page 17, the making of debt agreements is not only a means by which investors or providers of money are largely able to absolve themselves from the hazards of doing business when they permit their money to be put to use, but also a means by which they assure themselves of the ownership of the business should future levels of industrial activity fall sufficiently below the borrower's expectations. What would happen if the State ceased to enforce contracts which called for fixed—rather than contingent—monetary returns? Nothing but good, says Stoke. To him the State's permission to citizens to enter into debt agreements is—like its earlier permission to citizens to sell themselves into slavery—a basic social evil. Writes Stoke:

> In prosperous times debt is incurred in the hope of gain; in bad times because of necessity. But whatever the reason for which debts are incurred, the lowering of the fortunes of the borrower, whether isolated or because of a depression, has the same effect. Rope a wild bull, and snub the rope around a post. The bull may outclass you 10 to 1 in weight and strength, but by taking up slack as he plunges, soon you have him with his head jammed against the post, and in subjection. Interest is like that; it always tightens its hold in the slack period; it gets its man, its age, its civilization.
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> Debt * * * is the mortal enemy of the capitalist system. America has furnished it an ideal hot-bed of peace, order, and favorable law, so its ravages have been more rapid here than any time or place in history. The 50 years since the pioneer period ended see it fully in control of our economy, which it is now destroying. The billion dollars it extracts monthly from the producers of real wealth, and those who render service, accounts for the growing annual

[1] Address, 1420 Watts Avenue, Roanoke, Va.

national deficit. It is solely a financial middleman's fee, for which there is not one iota of material return.

No better example of the way the credit system extracts not only the profits but the capital from industry is to be found than in a study of the American railways. The Missouri Pacific Railway, which was recently put through the wringer by the Interstate Commerce Commission, is a characteristic example.

On a foundation of $152,000,000 in capital stock, had been erected a debt structure of more than five hundred millions, or a ratio of debt to direct investment of 3½ to 1. Now this did not happen overnight. At one time the road was solvent and paid dividends; but a time came when net operating earnings fell below interest charges. The excess of interest had to be paid out of capital. First to go was surplus, followed by depreciation reserves. When replacements became imperative, borrowing had to be resorted to. Borrowing meant more debt, more interest, more deficit, more borrowing. The ever-revolving vicious circle spun faster and faster * * * until no more loans could be secured and strangulation resulted because of want of operating capital.

In recent years the road had been making an annual operating profit of $7,000,000, or $8,000,000, but the interest overhead was more than $20,000,000. In simple terms, * * * $12,000,000 to $18,000.000 of the road's capital had to be added to meet the annual interest bill. When the end came, stocks were "found to have no value, and the holders of those stocks are given no participation in the securities of the new company." In a word, the capital structure had become wholly a debt structure.

Why, it may be inquired, was borrowing continued to such ruinous lengths? Simply because it was the only way working capital could be maintained. The public had become too wise to buy stock in such a set-up, just as today they prefer to hoard rather than to make direct investment in a tottering economy. It is sadly significant that 90 percent of the new security issues of the last 6 years are bonds, and only 10 percent are stocks. In reorganizing the Missouri Pacific the I. C. C. reduced the junior bonds to stocks. * * * The I. C. C. missed an opportunity to make financial history by failing to convert all bonds into stocks. Instead, they issued bonds in sufficient amount to absorb the present earnings of the company, presaging a future wringing process. * * * If Missouri Pacific had been financed by stocks only, it would have been solvent and paying dividends today. This is mathematically demonstrable from the fiscal records of the company. If I. C. C. had refinanced it with stock issues only, it would certainly survive many roads that are solvent today, but staggering along under a load of debt.

Missouri Pacific presents in miniature a picture of our entire economy. Now, with the nation's wealth mortgaged beyond debtor's power to pay, with investors unable to find well-secured interest-bearing securities, and wisely refusing to take the hazards of direct investment, what hope is there in coaxing or coercing idle capital into high-velocity action?

A conservative plan for the gradual elimination, first of private long-term corporate or business debt (housing loans not included), and then of public long-term debt, is that of Irwin S. Joseph, 132 West Thirty-first Street, New York, in The Debt Problem and Its Effect Upon Our Economy (booklet published by himself), March 1940. (See his revised booklet, Part 4, of this monograph.)

THE DEBT INSTRUMENT AND HOARDING AS EXPROPRIATORY TOOLS

We must realize, however, that it is the wild variation in rate of use of money which is the factor that is mainly responsible for making the debt instrument so effective in its expropriatory role. It is one thing to have creditors inherit what is left of a failing business in periods when the aggregate monetary demand is stable. For at such times poor management is probably the main cause of the failure. But it is quite another matter to maintain rules which permit creditors to inherit defaulting businesses during periods when not poor man-

agement but retreat of money from the channels of trade is responsible for the defaults. Even though one may question the social advisability of protecting one group of risk takers at the expense of another even when money flows steadily and continuously, one cannot entirely attribute the seriousness of the convulsions depicted by Stoke to the existence of fixed debt as a business form. There seem to be two questionable arrangements in existence which operate to generate expropriations and distributions like those depicted. It is the combination of fixed debt and the right to hoard which together generate situations like that illustrated by the Missouri Pacific. Recurrent sprees of capital spending and capital hoarding—with the rope of debt hitching the bull of ownership ever closer to its post—can by themselves have tremendous effects upon the distribution of income and the concentration of economic power.

Orthodox economic theory has historically limited itself to studying distribution under "equilibrium conditions"—under conditions where capital spending is unrealistically premised always to the stable. It believes that it can understand distribution without reckoning with those repetitious business-cycle convulsions which expropriate the financially distressed. Consequently even today it does not discuss how existing distribution might be largely the result of "squeeze-plays" in times of depression; how they are not simply the result of free bargains struck in the labor, land, and money markets between the contributors to production. An illustration will bring out the joint roles of fixed debt and periodic hoarding on the distribution of the national income.

Suppose that from 1870 to 1940 distribution between the factors of production remained constant; that during the whole period wages received a hypothetical 65 percent of the national income, entrepreneurial return 10 percent; land, 5 percent, and interest and dividends together, 20 percent. Suppose that while this was going on, the distribution of the income between families was nonetheless changing continually so that instead of, say, the richest 10 percent of the population receiving 25 percent of the national income in 1870, 1 percent of the population comes to receive that 25 percent in 1940. How could this altered distribution—not between the "factors of production" but between real people—occur?

Suppose that during a period of stable business activity prior to a depression, a John Jones earned $200 per month as wages; that his wages constituted a routine 65 percent of the value of the product on which he worked, and that he also owned a $7,000 house on which he annually received a rental return equivalent to his pro rata share of the national income that was currently going to "rent." Under such suppositions Jones is a recipient of both labor and investment return and is holding his own in relation to other workers and owners. Ownership and income are being neither concentrated nor diffused.

But suppose investors slow down their rates of spending until the activity of the Nation is cut in two, that as a result Jones along with others receives only $100 per month in wages instead of $200 as before, and that he also receives only one-half as much rent as before. Suppose this reduced income pinches him so that he takes out a $1,000 mortgage on his home. If capital remains idle long enough, Jones might lose his job and be unable to meet his mortgage at maturity. If

his creditors foreclose, Jones' house will pass for $1,000 into the hands of creditors who are better able to survive the hoarding period. (It will not do to say that inasmuch as the "richer creditors" who foreclose on property often consist of savings banks, life insurance companies, etc., in which the poor also have large equities, that the poor probably gain as much as they lose. Realism forces us to recognize that poor distressed property holders usually liquidate their bank and insurance company equities before they let their homes go at distress prices.)

Note that, if and when Jones' property transfers for $1,000, the creditors receive what was a $7,000 property for what was a $1,000 claim. Now if, after the foreclosure has taken place, the Nation's hoarders resume a rapid rate of spending, they will reflate the value of the house, from perhaps $1,000 to $7,000. Thus, by merely being granted the privilege to hoard and taking advantage of it, creditors who are not themselves driven to liquidate assets, acquire a $7,000 property for $1.000. If big investors go through such hoarding and expropriatory proceedings only occasionally (and keep the courts properly respectful of their contracts), they can make large returns on their capital. To the degree that creditors more than debtors survive depression without living off their property, are creditors benefited relatively by periodic withdrawals of capital from industry.

More of the Nation's income tends to be diverted to the well-fortified creditor after each depression. After each expropriation, for example, creditors naturally receive the house rent which had formerly gone to Jones and his kind. Statisticians may continue to bring out that "rent" is still only 5 percent of the national income, but they usually do not indicate the new strata of income recipients to which the 5 percent now goes. Thus the situation seems statistically reassuring and respectable from one depression to another while unemployed property holders drift into poverty and the concentration of economic power grows. Historically the study of distribution has been dissociated from the study of business cycles (and the study of business cycle theory even dissociated from the fact of hoarding) with the result that the mechanics of the expropriatory squeeze-play has never been given attention in "theories of distribution."

The abolition of debt as a permissible form of contract, as proposed by Stoke, would of course abolish our present form of money, inasmuch as money today consists primarily of certificates of indebtedness. And if it did so, what would we use for money? Goods? Warehouse receipts? Gold? Perhaps with some $18 billion worth of gold already in the country, it might be feasible to use gold certificates—warehouse receipts—in large enough quantities to serve us well as medium of exchange. Or, perhaps, if the state made interest charges uncollectible by law only on those debt obligations which had maturities of over, say, 1 year, then short term debt obligations would still remain with us and these alone could be transmuted into bank deposits to constitute our money.

Now that the modern corporate stock certificate as an investment form has been invented to facilitate the diversification of risk the author can see no functional justification for the existence of those forms of long-term debt agreements which seem only to absolve one group of investors from risk at the expense of another. However,

it might prove difficult to abolish interest simply by making interest charges uncollectible by law. For hundreds of years the church labeled interest "usury" and tried to abolish it but failed. When money has no carrying charges—that is, when there is no pressure on it which operates to put it into use—people in distress have no alternative but to bait it out with rewards in the form of interest. Only by putting pressure on money itself to induce it to look for takers is it likely that interest can be reduced or destroyed. And, administratively, it is far simpler for a State to impose a tax on a self-assessable asset like money than to inspect, scrutinize, and judge those specific contractual agreements which take the form of fixed debt agreements.

TAXATION OF ALL FORMS OF DEBT INSTRUMENTS

A similar but milder proposal than Stoke's suggestion to make interest charges uncollectible by law is one proposed by both Harris K. Randall [2] and Jacob Baker,[3] both of whom would tax all instruments of indebtedness progressively. In outlining possible "Sources of Additional Revenue for Extended Social Benefits" for the C. I. O.'s "Committee on Social Security," Baker proposed a tax on all instruments of debt. Although holders of bonds, mortgages, and other such paper pay their share of income tax in accordance with their ability to pay, they do not, according to Baker, pay in accordance with the benefits received. He says:

> The whole paraphernalia of courts of equity and much of civil law, the whole procedure of bankruptcy and receivership, the whole authority of the Federal marshal are directed toward the protection of instruments of debt. This vast and expensive machinery is an insurance to the creditor of the collection of his claim against the debtor. Much debt is on a long-time basis and because of that fact partakes of the nature of equity investment. Even here, however, the creditor has a superior claim to governmental protection of his interests and rights above the holder of share capital or the partner or the owner of a business.
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> Every instrument of debt, whether it is a 90-year railroad bond or 3-month demand note, shares this peculiar protection from the sovereign Government. Indeed, the protection is duplicated and triplicated in that several overlapping jurisdictions—municipal, State, and Federal—may, any or all of them, be called upon in the protection of certain types of debt claims. The shorter the debt claim, the greater the volume of court business in its protection and the greater the reliance upon sovereign power for insured collection.
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> The long-term instruments of debt represent actual participation in economic enterprise. The investor has been willing to lay his money down for a long period. While he has a good deal of protection, he does share some of the risk. Short-term debt participates much less in risk. The short-term lender is a well-known figure in many communities in the United States. He is the man who buys tax warrants, lends money on warehouse receipts or any other security that he can realize on quickly. He anticipates the profits of others. Debt claims range from those that are completely participatory to those that are completely anticipatory. They are all an important part of the economic system, but the more anticipatory they are, the more they are subject to the abuses of hoarding, high interest rates, and other forms of legalized profit that may be extortionate.
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> * * * Because the long-term debt obligations do not require as much governmental service in protection and because they partake of the nature of permanent investment, the scale of payment should be lower for this type of debt.[4]

[2] Address, 37 West VanBuren, Chicago, Ill.
[3] Address, United Federal Workers of America, Washington, D. C.
[4] "New Taxes for Social Benefit," in Dynamic America, November 1939, p. 25.

Short-term debts like time deposits, protected as they are by Government regulation and inspection, Baker would tax at relatively higher rates. Also—

Unless demand deposits are taxed, there will be a tendency to transform long-time deposits into demand deposits bearing interest on average balances. Demand deposits constitute the first point of immediate hoarding in periods of depression. The demand depositor holds his deposit as cash in hand, so that he may buy commodities at a low price and sell them at a higher one. This privilege of hoarding and speculation is a very great one and a very profitable one, and in consequence on both scores can bear a heavier tax. * * *

Government debt, too, is in a protected position and the holders of Government obligations because of the security of income are in general in a good position to pay a tax. However, there may be constitutional difficulties involved and until there is certainty on that score, the possibility of taxing Government debt is only indicated.[5]

Randall's approach parallels the above. He would—

impose a supplementary deterrent tax on all private holdings of liquid assets—money, bank deposits, and debt paper. Let this "debt-tax" be progressive with the liquidity of the paper held (scaling up to a maximum rate on money itself as 100 percent liquid) and steeply progressive also with the amount held by the individual—thus to deter debt-hoarding by the wealthy * * * as well as jolting the inactive dollar into purchase of something—anything—whose production will employ labor, boost the genuine demand for it, and so force up real wages. Make exempt from the debt tax all paper held by banks against their deposits, and by insurance companies against the cash value of their policies—these to be taxed to the individual policy-holders and depositors insofar as they hold totals large enough to be taxable.

In advancing the merits of this debt-tax proposal, Baker adds:

This is a new source of Government revenue. It is projected upon ability to pay and benefits received. It carries with it incidentally but inherently highly beneficial economic results in that it attaches a slight expense to the peculiar privilege of hoarding and speculation, places some charge on all debt and thus encourages funds to move into common stock equities, venture capital, and productive investment generally.[6]

Long-term private debt in the United States, according to the latest study available,[7] is over $99,000,000,000. The current Federal, State, and local debt exceeds $60,000,000,000. For revenue reasons alone, therefore, the question of levying taxes on a major part of such debt (with exemptions of the kind indicated by Randall) seems worthy of careful investigation.

Finance officers of States and municipalities, such as Morris S. Tremaine, of New York State, have contended that a Federal tax on the return from municipal bonds, for example, would operate to cost the municipalities more for their financing.[8] That would normally be the case and is certainly the case today, but it would not be the case if the tax is also levied on time and demand deposits, as both Randall and Baker suggest. For, without that stipulation, money would be safe in remaining idle, and financing which aimed to lure money into buying taxable instruments such as municipal bonds would undoubtedly have to pay higher interest rates. But if the safety in remaining idle were concurrently taken away, no

[5] Ibid., p. 26.
[6] Idem.
[7] Evans Clark and George B. Galloway, editors, The Internal Debts of the United States, Twentieth Century Fund, Macmillan Co., New York, 1933, p. 5.
[8] New York Times, May 9, 1939, p. 35, column 5.

higher price would have to be paid. In fact if—as both Randall and Baker suggest—short-term debts were subject to higher rates of taxation than long-term debts, municipalities, States, and the Federal Government would all be in a position to finance and refinance their debts at lower rates than before.

CONCLUSION

Today, as always, shocks occur to our economic system. Periodically, production in some fields of activity is disrupted. That is unavoidable. A hurricane in New England overexpands our lumber supply. A European war destroys our foreign markets. A court decision terminates an N. R. A. Disruptions are destined always to be with us. Our weakness seems to be that periodically we are not able to prevent production in all fields of activity from declining when a serious miscalculation or disruption of production occurs in any one field. Spiethoff, Hansen, Schumpeter, Cassel, and Robertson all properly point out that investment demand probably always will, because of its heavy dependence on technological change, come by fits and starts. Our problem is to provide a balancing demand for consumer goods when specialized investment demands are disrupted or disappear.

Soon we may be faced with the problem of what to do when the European war is over, war orders stop coming in, and defense preparations are curtailed. People are already speculating on how severe the additional unemployment will be. The unemployment problem may thus become an increasingly urgent one. Weary as we may be of it, we cannot abdicate it. We still have six or seven million unemployed and we cannot feed them retroactively. The problem is, moreover, one which must be solved fairly well—so well in fact that people feel that the goods they receive reflect in a reasonable measure their capacity to produce.

History teaches us that the masses do not necessarily regard their right to vote and other freedoms as a sufficiently valuable stake in democracy to merit their support for the existing forms of government. Elsewhere the right to vote has been used to destroy democracy, and in time it may even here be so used unless a reasonable participation in the benefits of production is provided for the mass of citizens. In our regard for the vested rights of those who oppose change, we should not forget that the industrial stagnation which that regard generates places the rights of the many in abeyance.

We may make rapid scientific advances in technical fields, we may eventually harness the energy of the atom itself, but nonetheless unemployment will assuredly be with us—perhaps in even larger proportions than heretofore—so long as we do not directly insure full-blast exchange of goods and services between specialized producers. So long as we provide laws which permit any factor of production to gain more over an appreciable period of time by withdrawing from production than by accepting the prices which enable it to remain fully and continuously at work, we are probably doomed to lose many of the potential gains of technical progress.

Because it is usually a levy upon income, taxation is commonly thought of as one of the least satisfactory methods of social reform.

For it is usually a remedy applied after the act. Income taxation, for example, may—in lieu of better solutions—be very helpful in rectifying a maldistribution of income which has its roots in exploitation and special privilege. But income taxation does not attack the causes; it does not even aim at the particular rules of the game which make for exploitation and special privilege. Moreover, when States thus participate in the fruits of unfair rules, they may even be tempted to tolerate the evil for the sake of the revenue. This seems currently to be happening in many States in connection with race-track revenue, for example. There are taxes, however, which differ fundamentally from taxes on income in that they attack directly the sources of economic advantage which lie at the root of maldistribution. Such taxes imply no tacit alliance whereby the State tolerates unfair rules in exchange for the privilege of sharing in the ill-gotten fruits.

The growing intricacy of modern life makes the need for planned adjustment continuously more pressing. The task of correlating and coordinating the multitudinous details of our living together seems to outgrow human capacities. To administer properly from a central source the details pertaining to our vital social problems seems ever more unfeasible. In this situation many realistic people are coming to believe that the tool of taxation offers the most promising escape. For the taxing power is a tool with which democracy can destroy special privilege. And if this power is used in a major way to release impellent forces and to remove retarding ones, it may be possible to hold stable or even to reduce the area of detailed governmental regulation to limits within the bounds of human capacity.

PART II

PLANNING FOR ABUNDANCE

by

HON. ROBERT G. ALLEN OF PENNSYLVANIA

HON. THOMAS R. AMLIE OF WISCONSIN

HON. JERRY VOORHIS OF CALIFORNIA

In the first session of the Seventy-fifth Congress, four Members of the Congress, Hon. Maury Maverick, Hon. Jerry Voorhis, Hon. Robert G. Allen, and Hon. Thomas R. Amlie, simultaneously introduced an industrial expansion bill. A different number was given to each bill, but they are identical in content. Their remarks concerning this bill are included in the following pages of this monograph.

The industrial expansion bill went through several revisions and in its latest form appears as H. R. 7504, the Monopoly Control Act, introduced by Hon. Jerry Voorhis in the first session of the Seventy-sixth Congress.

It is not to be understood that the Congressmen who introduced the first act are supporting this last version, but as their statements concern planning for abundance and a positive program for industrial expansion, which is the subject matter of this last version of the industrial expansion bill, they are grouped in this section of the monograph.

REMARKS OF HON. ROBERT G. ALLEN, OF PENNSYLVANIA, IN THE HOUSE OF REPRESENTATIVES MONDAY, AUGUST 16, 1937

Mr. Allen of Pennsylvania. Mr. Speaker, on June 1 Representatives Amlie of Wisconsin, Maverick of Texas, Voorhis of California, and I jointly introduced in this House a measure known as the Industrial Expansion Act. This measure is the outgrowth of a great deal of painstaking work and innumerable conferences between the Members who introduced it. We not only contributed to it our own ideas but on many points we sought the assistance and advice of economists and political scientists who think in terms of society as a living, expanding organism. To the best of our ability we framed a measure in line with modern technological and economic developments and in harmony with human instincts. Because this is a new approach and a new departure in legislation, a prologue to the discussion of the bill seems pertinent.

Not even in a despotism, and much less in a democracy, can any legislation be long enforced which runs contrary to and violates primary human instincts. These instincts are: Self-preservation, which includes all that has to do with access to and mastery over the physical necessities of life; race preservation, which embraces mating, reproduction, and the rearing of offspring; and the instinct to push ever outward the horizons of knowledge, which include exploration, experimentation, education, and modern science. These primal instincts are far older than man-made laws and stronger than any sort of police powers. They are so deeply buried in the inner core of being that no religion has ever been able to dominate them, no legislation has been crafty or drastic enough to turn many for any length of time from life's destined way, and no dictator or tyrant has ever

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been able to seize enough power to bend and shape these instincts of the people to his will.

As true as that throughout the ages men have always been dominated by these common instincts, is also the fact that all men in all of human history have been gripped by one common fear—the fear of scarcity. Self cannot be preserved, the race cannot be propagated, and intellectual horizons cannot be extended if scarcity denies access to means of life; so scarcity has always been the common enemy and abundance has always been the dream of all mankind.

The lash that has driven man every step of that long, weary, blood-washed march of social evolution has been his longing to escape scarcity and want, and to achieve plenty and security. It has been the urge back of every migration since Cain traveled to the land of Nod to find himself a wife and a home, down to the last wheezing flivver loaded with "dust bowl" refugees headed for California. It was this fear and this hunger that led our savage ancestors to face the terrors of the unknown. It was this fear and this dream that led our ancestors across Asia, across Europe, across the Atlantic, and across America to the Pacific, which is the end of the trail for western migration.

The fear of want and the hunger for plenty fuse into one unconquerable human drive, and in its baser forms it is a terrible thing. It has been the breeder of all the wars and all the crimes that have ever blackened the earth, but in the final judgment its virtues will outweigh its sins; its achievements will stand forth as the dynamic force and the never-fading light that has led man up from the pits of savagery to the highest type of civilization the race has ever known.

Not in our own country alone but in the whole civilized world, men and nations are stumbling and staggering about in the wreckage of an economic system that is changing. Scarcity is gone. Modern science and mass production methods have routed it, and a scarcity system falls when the driving force of scarcity is no more. Frantic with fear because we see that the old verities are no longer valid, we slash at our equally fear-crazed neighbors in wars, strikes, mob madness, vigilantes who would be the law, and moribund courts who would use dead laws to turn back the march of progress, and violate the primary instincts of men. Hunger and want, still-born hopes, and wasted opportunities result because we try to revitalize a system of scarcity that is gone.

THE INDUSTRIAL EXPANSION ACT

The Industrial Expansion Act, now presented for your consideration and action, is the first legislative measure ever offered in the Congress of the United States that gives due consideration to the technological developments which make an anachronism of an economic system based on scarcity. It is a measure which seeks to make possible by legal, constitutional methods the full utilization of all our machinery and manpower to increase production to a point where it will assure to all our people the comforts of life. It seeks to keep step with technological progress, rather than to turn back the march of time to an artificially created scarcity.

This measure is designed to effect greater production of goods and services by putting all available manpower and machinery to work, and greater consumption of goods and services by providing the necessary purchasing power through productive employment at living wages of those now disemployed.

ABUNDANCE NO LONGER A DREAM

Abject fear of scarcity is no longer sane, nor do we need to speculate and guess what our productive capacity might be. Two recent surveys answer for all practical purposes our questions as to what the United States could produce if it used fully its productive possibilities.

The Brookings Institution, in its study called America's Capacity to Produce, stated—and the findings have not been questioned—that additional goods and services to the extent of many billions of dollars could have been provided during 1929, our all-time high in production, if our machinery and our disemployed labor had been used to capacity. In our best year we were using our industrial and agricultural plants at only 81 percent of their capacity, and technological disemployment was a serious problem.

The National Survey of Potential Product Capacity was set up in 1934 by the Federal Government under the Civil Works Administration to study this problem. Federal funds were used, but the study was not made by relief workers. Thirteen experts were employed, chosen from the best of our engineers, sociologists, and economists.

This study, summed up by Harold Loeb and his associates in The Chart of Plenty, indicates that the United States could, by using more fully and intelligently all of our productive facilities, add to what was produced in 1929 approximately $40,000,000,000 worth of goods and services.

THE POSSIBILITIES FOR PLENTY

To be on safe ground we may discount the finding of the Brookings Institution and The Chart of Plenty one-half or one-fourth, yet the fuller and saner use of our capacity to produce would transform the very nature of our social order. Additional goods and services worth twenty to thirty billions of dollars, if divided annually between the disemployed in wages and salaries, would make poverty as extinct as the black plagues which scourged whole nations and laid waste to cities before modern hygiene, sanitation, and medical science routed ignorance and superstition.

The bill which we present is designed essentially to make it possible for the one-third of our population ill-fed, ill-clad, and ill-housed to make full use of our productive capacity. It deals with the simple, primary needs of life; foodstuffs, milk, vegetables, meat, and fruit, our daily bread with butter and jam on it, which we can produce in superabundance, and the lack of which makes so large a part of our people ill-fed. It deals with clothing which our farmers, textile mills, and garment factories could turn out in ample quantities if we could only think and act in terms of plenty. It deals with housing, the pestholes of modern society—slums, rural and urban—with miles of modern, comfortable, well-equipped, sanitary and beautiful homes which our architects and builders are so capable of producing. It deals with travel passenger-miles which lack of opportunity to provide has bank-

rupted railroads, and made of automobile manufacturing a hazardous occupation. It deals with medical care, education, recreation, music, art, and drama, necessary services which during the depression have been beyond the reach of great masses of our people. The Industrial Expansion Act seeks but to implement and make possible of achievement what every normal human being wants—an end to poverty, penury, pauperdom, the slow starvation of body, brain, and soul—for it recognizes that there are no physical factors preventing the creation of the requisites for decent living in generous quantities by self-supporting, self-respecting American citizens.

PARIAHS OUTSIDE OUR ECONOMIC SYSTEM

This bill may seem revolutionary in that it deals with abundance and seeks to make it available to our whole people rather than attempting to restrict production to niggardly, penurious quantities that can be sold at a profit in a market of shrinking purchasing power. But we have reached a point where life itself is in a state of revolution. We are faced by a situation unprecedented in human history. We have perfected machinery and techniques capable of producing food, shelter, and clothing in ample quantities. Yet, to quote the President, one-third of our population lives below the penury line and fully 20 percent are economic outcasts, social lepers, unclean with the disease of poverty, pariahs outside the pale. They are the mortgaged and tenant farmers tilling poor soil with poorer equipment whom society does not need. They are the workers whom modern labor-saving machinery has replaced, the technologically disemployed whom industry no longer needs. They are the surplus professional and "white collar" workers whose highly skilled services are as much a drug on the market as labor's brawn. They are the workers past 40, whom industry rejects, and the young born 20 years too late, whom industry ignores. They are the W. P. A. workers and the relief clients whose starvation doles we recently voted to cut, and who now disturb us with their frantic protests that to drop them from relief rolls means slow starvation.

We have had 4 years of experience to prove that mere relief is not the answer. Whether we slash it to a billion and a half or boost it to three or four billions of dollars per year, it is only a faulty makeshift. We whose job it is to legislate for our country's welfare should acquire some ability to think realistically. We might just as well face the fact that the 80 percent of our people who have a place inside the economic system, whether as owners and profit takers or as poorly paid farmers and wage workers, who produced the $70,000,000,000 of our national income, are not willing to permanently support the 20 percent outside the system. We may pile the burden of supporting the disemployed on the producers for a time, but political realism should teach us that tax-supported relief for those forced to be drones in industry is not enough to meet the problems either of the low-wage brackets where income must be supplemented by charity or of the outcasts outside the pale.

A NEW MENACE IN THE OFFING

President Roosevelt's National Resources Committee very recently published a report which presents another view of the challenge of

the machine age. This Committee's work is the first effort of our Federal Government to scientifically chart not only existing production possibilities but the potentialities and social portents of inventions and technological processes now being developed. It forces us to consider that an ounce of foresight is better than a ton of hindsight in making the necessary human adjustments to modern machinery. It deals at length with the social portents of the cotton-picking machine, which might throw seven to nine million southern cotton producers out of employment and dump them into an already overcrowded labor market in the industrial sections of the North and East. It calls our attention to the profound social changes and threats to the existing order of air conditioning, photoelectric cell, plastics, fabrics made from cellulose, synthetic rubber, prefabricated houses, television, trailers, synthetic gasoline, and tray agriculture. These are not wild dreams of visionary inventors; they are accomplished facts; and we will be forced to deal with their impact on our social problems in the very near future.

Any thinking person knows that neither the sort of business recovery we are now enjoying nor congressional oratory will put the disemployed to work. You may be only politely bored with our insistence that we legislate for industrial expansion that will find jobs for all of our working people; but when the next depression arrives, which is as inevitable as that the sun will rise tomorrow morning, what may sound like visionary Utopianism to you now will have a different aspect.

The industrial expansion act which we present to you sets up machinery to bring about voluntary agreements in the major industries to provide:

(*a*) For the inclusion in all agreements of provisions against any rise in price, except in a few sweated industries, where prices must be raised somewhat in order to make possible the payment of living wages.

(*b*) For coordinated increase of output, planned according to national needs.

(*c*) For an equitable division of the new purchasing power resulting from increased production.

(*d*) Industry will be protected against loss if it cooperates in the plan by a system of purchase agreements covering possible unsold surpluses.

(*e*) Labor will be protected because wages must be increased under the plan; because prices will be prevented from rising; and because it will have equal representation with capital on every industry authority.

In order to secure the cooperation of industry in carrying out a national plan calling for capacity operation, the Federal Government will depend primarily upon a processing tax similar to that used in the A. A. A. It is contemplated that a processing tax of 25 percent of the value added to goods by the manufacturer will be charged on all manufacturing operations covered by the act. However, if a unit cooperates with the Government in the matter of wages, output, and other conditions, all but 5 percent of this amount will be refunded. But in order to secure cooperation with the Government depends not only upon the imposition of a tax but also proposes to enter into agreements with all cooperating units by which the Government will take over at cost a certain proportion of the total output that proves to be unsalable.

It is not expected that the Government will incur any great loss by so doing, if as a result of achieving full production all along the line national income is stepped up from seventy to one hundred billion dollars a year. The manufacturer will be just as safe in turning out 100 units as he is now in turning out 70, because the people will be assured of the requisite purchasing power to purchase them.

It is still recognized, however, that with the advance that has taken place in technique during the past 10 years, even if we were to achieve full production we should still have three or four million people unemployed. The industrial expansion act contemplates that the services of these people will be utilized in a long-term, far-reaching housing project. As far as possible, private builders will be encouraged and assisted in providing employment for these people. It is further recognized, however, that in order to rehouse America the Government itself will have to assume responsibility for the main part of a long-term rehousing program. This feature of the bill is the balance wheel that will absorb any slack that may develop in the operation of the act. It should be noted that this act does not contemplate the socialization of industry, but it does contemplate the degree of cooperation from the Federal Government that is necessary to operate American industry at full capacity and give all of the American people a high standard of living.

In conclusion, I should like to state that we are not attempting some utterly new departure in the field of legislation. We are merely trying to do what the New Deal started out to do in 1933. Even the methods that we are using are the methods that the New Deal has already sold to the American people. The only difference, if any, is that we are seeking to use these methods in order to achieve abundance rather than artificial scarcity. It is our opinion that the American people are ready for a program of this kind. They were probably not ready for it 4 years ago, but a great deal of fundamental educational work has been accomplished by the New Deal since its inception.

We know that human folk ways do not change overnight, and that it is always dangerous to attempt too drastic changes without a preliminary period of education. We feel that the necessary trial and error methods have gone far enough; that events have proven that the system of artificial scarcity may hobble along until the next depression, but that artificial scarcity in a world of potential plenty is just plain dumb.

We have framed this act to make a reality of the dream of plenty glimpsed by Veblen 30 years ago, dramatized by Loeb and his associates in The Chart of Plenty, and brought down to earth by Ezekiel, who has proven beyond successful contradiction that if the machinery set up by the A. A. A. and the N. R. A. were used to secure full production instead of restricted output, a minimum in goods and services equal to what $2,500 a year will now buy would be available for every family in the United States.

We know we are suffering poverty because we are not producing enough wealth to give all of our people a comfortable standard of living, and that the reason poverty is so widespread and disastrous is that artificial scarcity, engendered by class legislation and reactionary decisions of the Supreme Court, has been forced on an era of technological abundance. We know that if our present national production of approximately $70,000,000,000 annually were divided

equally among all of us we would all be living in penury. But if the established machinery of the A. A. A. and the N. R. A. are framed into law by the Industrial Expansion Act; if they are used to boost production to whatever point is necessary to provide American standards of living for all our people, no one would be robbed of what he now has and nothing would be taken from those now living on a scale above the average.

One-third of our people ill-fed, ill-clad, and ill-housed, and one-fifth of our people economic outcasts outside the pale is a challenge to us, to our democracy, and to the eternal principles of human brotherhood which we Representatives of the people dare not ignore.

REMARKS OF HON. THOMAS R. AMLIE, OF WISCONSIN, IN THE HOUSE OF REPRESENTATIVES SATURDAY, AUGUST 21, 1937

Mr. Amlie. Mr. Speaker, on June 1, 1937, Congressmen Allen, of Pennsylvania, Maverick, of Texas, Voorhis, of California, and I introduced in the House of Representatives the Industrial Expansion Act. This measure was prepared with a great deal of painstaking effort on the part of the Members who introduced it. While Gen. Hugh S Johnson, in his syndicated column, has intimated a shrewd suspicion that the bill originated with the President's "brain trust," his opinion is without foundation.

Properly speaking, a measure of this kind is not the work of any one man. Ideologically it stems from the writings of the late Thorstein Veblen. More specifically, it goes back directly to the findings of several recent surveys made to determine the productive capacity of the United States, particularly the National Survey of Potential Product Capacity, under the direction of Harold Loeb, and financed by Federal funds, and the studies of the Brookings Institution, America's Capacity to Produce and America's Capacity to Consume. The findings of the National Survey were set forth at length in a speech by Byron Scott, of California, Congressional Record for July 1, 1935, page 10577.

"A. A. A. IN REVERSE"

As a direct outcome of this survey, Dr. Mordecai Ezekiel, economic adviser to the Secretary of Agriculture, Mr. Henry Wallace, wrote a book entitled "$2,500 a Year." In this volume, Dr. Ezekiel offered a tangible plan by which the great productive capacity of the country, disclosed by the N. S. P. P. C. and the Brookings studies, might be released and the benefits made available to the people of the country as a whole. It was Dr. Ezekiel's thesis that if the Government could set up instruments such as the A. A. A. in order to achieve artificial scarcity, the same instruments might be used to achieve optimum production. If a processing tax could be imposed on the value added to the goods by the manufacturing process, and the proceeds of such a tax used to pay the raw-material producers for cutting down their production, why could not the same processing tax be used to induce them to increase production? In this volume, Dr. Ezekiel proceeded to show how the specific instruments used in the crop-control plans might be used throughout industry as a whole to step up production enough to give all the American people a high standard of living.

POWER TO REGULATE INTERSTATE COMMERCE INVOKED

Unfortunately, however, this book was published just when the Supreme Court held the A. A. A. unconstitutional. As a result, the plan did not receive the attention it merited. Only when the Supreme Court upheld the constitutionality of the National Labor Relations Act did it become apparent that what Dr. Ezekiel had proposed to do under the general-welfare clause could be done just as well under the power to regulate interstate commerce. The Industrial Expansion Act, therefore, while based essentially upon the Ezekiel proposal as outlined in his book, rests not upon the constitutional power upon which he based his plan but rather on the power of Congress to regulate interstate commerce, which as construed by the Court in the National Labor Relations Act decision is amply broad to legalize the provisions of the Industrial Expansion Act.

The formulation of this act stems more directly from a resolution adopted by the State convention of the Commonwealth Federation of New York, held on April 17, 1937, favoring a measure that would enact into law the plan outlined by Dr. Ezekiel. The sponsors of this bill have worked assiduously for several months prior to its introduction to put the bill into its present form.

TAXING POWER USED TO STEP UP PRODUCTION

The central theory of the bill is that if the power of the Government can be invoked to reduce production, as in the case of corn, wheat, and cotton, the same instrument can be used to step up production all along the line. That is to say, why cannot a 25-percent tax be imposed on the value added to goods by processing in the principal or essential industries? To the units that cooperate in stepping up production, keeping down prices, and meeting certain labor requirements regarding hours and wages, this processing tax will be refunded. It is recognized that this use of the processing tax is purely a method of persuasion. It is the teeth that were put into the A. A. A. and that were left out of the N. R. A.

ONLY ESSENTIAL INDUSTRIES AFFECTED

To begin with, the processing tax would not be levied on any industry until a comprehensive plan had been worked out for all the essential industries. The units within the industry would first be given the opportunity to set up their own code; if they failed to do this, and the industry were essential, the Government would have the power to set up a code. No units would be compelled to come in, except and insofar as a refunding of the processing tax would persuade it to do so. Moreover, it is not the intention, under this plan, to bring all industry within the operation of the plan. It is the feeling of the authors that this was a mistake under the N. R. A., and that in the operation of this act only the industries actually necessary to the operation of a Nation-wide plan should be affected.

NATIONAL INCOME INCREASED FROM $65,000,000,000 TO $95,000,000,000

If industry is stepped up all along the line, it should be possible to increase our present national income of $65,000,000,000 a year to $95,-

000,000,000 a year. The individual manufacturer, therefore, would be just as safe in turning out 95 units as he is today in turning out 65. There would be the same chance of disposing of his product at a profit, for the simple reason that the national income would be stepped up proportionately. But the Government depends not only upon the coercive pressure of the processing tax but also upon governmental cooperation with all manufacturing units that are willing to come in under the general plan. The industrial expansion authority, for instance, would have the power to enter into contracts with all manufacturers by which it would take over at cost a certain percentage of the total output, should it prove to be unsalable.

This, briefly, is a summary of the machinery provided by the Industrial Expansion Act, and the economic analysis and theory upon which it is based. Since the actual provisions of the bill have been discussed at length in the remarks of Congressmen Voorhis and Allen, I shall not further discuss this phase of the bill.

UNCORKING THE HORN OF PLENTY

I wish, rather, to devote my remarks to that rather large group of American citizens who can see the anomaly of actual poverty in the midst of potential abundance; who realize the great productive capacity of the United States, measured in terms of natural resources, modern factories, a highly perfected technique of production, and a highly skilled and industrious citizenry; who, envisioning the possibilities of production in a country where artificial shackles have been removed, have also been moved by the injustice done to large sections of the people in denying them access to the Nation's raw materials and machinery of production.

I know that these people do not need to be persuaded that our objective is a desirable one. They are already persuaded. Their concern, however, as well as ours, is to find the method by which this goal may best be reached.

SOCIAL OWNERSHIP THE SOLUTION?

We are all, of course, familiar with the various approaches to this problem. First and foremost come the adherents of that school of thought which believes that the natural resources and means of production upon which the welfare of society depends ought to be owned and operated by society itself.

On the one hand are the Socialists, who have believed that it was possible to achieve this goal by gradual extension of the field of political ownership to the taking over of utilities, natural resources, and essential factories after properly compensating the owners therefor. But it has become perfectly clear that the 4 percent of the people who own 80 percent of the Nation's wealth are thoroughly opposed to any plan of this kind, and that they will use their wealth in any way they find effective to defeat it. Consequently most Socialists, observing their frustration here and their failure abroad, have concluded that this program, while it is thoroughly logical and ethical, is nonetheless politically impossible.

On the other hand are the true Marxists, who believe that this change in the ownership of the means of production can come about only as a

result of a violent revolution, overturning the present capitalist class, and the setting up of a dictatorship of the proletariat on the part of the masses, through which instruments the classless society will finally be achieved.

NEITHER SOCIALISM NOR COMMUNISM FEASIBLE HERE

But it has always seemed to me that there was little justification for any hope in such a program in the United States. I have written extensively on the subject, and have as a result been condemned at considerable length in the official publications of the Communist Party in this country. I have long been convinced that the American people will never regain that equality of opportunity that has been an American heritage by the traditional program of either the Socialists or the Communists. On the other hand, I am equally sure that the old order of laissez-faire and rugged individualism will never again work satisfactorily. I am convinced that the American people will regain the equality of opportunity of which they dream only when American industry is operating at full capacity.

EXPANSION OF PRODUCTION THE LAST FRONTIER

In the field, between 65 and 95 percent of capacity operation is, in my opinion, to be found the frontier which alone can reestablish the equality of opportunity in which we all believe. It is my firm conviction that only through such a plan as that proposed in the Industrial Expansion Act is it possible to move in the direction of capacity production, a high standard of living, and equality of opportunity. I believe that in any other direction lies the certainty of failure—failure that will set in operation forces of retrogression rather than progress.

GERMANY'S EXPERIENCE A LESSON

There is, as I see it, a deadly parallel between what is happening in the United States today and what happened in Germany in the decade preceding Hitler's rise to power. During this period three friends of mine visited Germany, and because of their backgrounds came into intimate contact with certain large, and at that time important, groups of the German people.

FRIEND NO. 1

This man, because of his pioneering in certain fields of labor relations in this country, had the opportunity during a 6-month stay in Germany to meet many of the most important leaders of the Social Democratic Party. When he returned in the spring of 1933 he told me that he, as an outsider, seeing the desperate need for action by the Government—that is, the Social Democratic Party—had warned some of these leaders, that they must act before it was too late, because Hitler might very readily come into power if they failed. But they had the situation figured out statistically. Hitler could not possibly, with his antilabor policy, win over a majority of the German voters. They were positive that very few of the unemployed would support Hitler, because after all they belonged in the main to the working class, they had a working-class psychology, and it was inconceivable

that they would turn against their friends and join an avowed enemy of labor. These unemployed people, however, regardless of class background, had become desperate and demanded action. They listened uncritically to the promises of Hitler, and concluded that it would probably be all right to give him a chance.

FRIEND NO. 2

This was a young man recently graduated from college, who as an undergraduate had been in close touch with the various youth movements of the world. In Germany he met many of the young Communists and some of the Communist spokesmen. He told me that they were hopefully watching the rapid liquidation of the status of that large number of people who had formerly belonged to the middle class. They were confident that as these people were forced into the ranks of the unemployed proletariat they would join with their equally unfortunate comrades to give the Communists the needed mass support for a successful class revolt. But these dispossessed members of the middle class did not join the Communists. They joined Hitler.

FRIEND NO. 3

This was a woman who, with her husband, had played a long and distinguished role in the history of the American Socialist Party before and during the World War. While in Germany she naturally had entry into Social Democratic circles. They pointed with pride to what they were doing for labor—aiding in unionization, shorter hours, better working conditions, unemployment insurance, old-age pensions, workmen's compensation, industrial housing, municipal ownership, and so forth. But as she viewed all this progress she could not shake from her mind the disturbing conditions of that large part of the population that had formerly belonged to the middle class and who were now being forced into the ranks of the economic outcasts. What was being done for them, and what plans did they have for their future? The invariable answer was, "Aber das ist nicht unsere sache."

"BUT THAT IS NOT OUR PROBLEM"

This is the answer that would be given by almost any farm or labor leader in the United States today. The average farm audience does not care to hear about the problems of business or the workers. They want to know how they can get cost of production for their crops, and they regard anything else as extraneous. Since a disastrous export market lessens the price of the local crop, obviously the most sensible suggestion is to reduce production to the level of the effective domestic demand, thereby reducing labor and increasing income. And if the A. A. A. and Soil Conservation Act can reduce agricultural output to the amount for which there is an effective demand, laboring men are wondering why labor cannot be made artificially scarce by limiting the number of hours per week that any man can work. Important labor leaders are offering this as an ultimate solution for the problems of the workingman..

THOSE INSIDE WILL NOT SUPPORT THOSE OUTSIDE EITHER BY TAXATION OR PRODUCTION FOR USE

The liberals of the country might as well realize that the 80 percent of the people who have a place within the system, whether as owners and profit takers or merely as poorly paid farmers and workers, and who produce the $65,000,000,000 that makes up our national annual income, are not willing to take care of the 20 percent who are outside. The argument that purchasing power given to these people would make greater prosperity possible has never had any great persuasive force with the average man. If he has a place within the system, he feels that he is contributing to the Nation's total income, and that the unemployed man is not. In an emergency he was willing to admit that he owed some obligation as his brother's keeper, but the plain truth of the matter is that he will not assume this role permanently. The weakness of the relief program lies in the ethical nature of its hold on the people within the economic system. Political realism should teach us that this is not enough.

The time has come when the various groups and individuals who are seeking to improve the lot of the "one-third of our people who are ill-fed, ill-clad, and ill-housed" must get behind a program that will have a chance to divide politically not the people outside from the people inside, but rather the one-fifth who now own and control the United States and all that is in it, from the unemployed, those who are employed at low wages, and those who earn the barest subsistence on the Nation's farms—in short, the 80 percent of the people who, whether inside or outside the system, are unable to enjoy even a modest standard of living.

So far as the traditional Socialist program is concerned, no one can question its thoroughly logical approach; but socialism has always left in the hands of the enemy those psychological instruments that are so well designed to take care of every form of psychological lag. It is needless to argue the point, since the voters have already given their answer in the past two Presidential elections.

The Communist program is based on certain assumptions that are not applicable to this country. The question, therefore, is whether there is some program, outside of socialism and communism, which will solve the problem and at the same time appeal to the great majority of the citizens of the United States. The sponsors of the Industrial Expansion Act believe that this measure provides a program that can now secure this support. Briefly, these are the reasons for our optimism.

REGIMENTATION NOW A FAMILIAR TOOL

If the Industrial Expansion Act had been proposed in 1932, it would have been premature. The people of the country, despite the chaos then prevailing, would have cried out against this attempt at industrial regimentation. The farmers were with difficulty persuaded to accept the A. A. A., which merely permitted them to reduce their output to the level of the effective domestic demand. As a matter of fact, farm leaders had been advocating this kind of program for many years. The A. A. A. gave the farmers the kind of scarcity they were interested in.

Even while Hoover was in the White House, the United States Chamber of Commerce had advocated a plan similar to the N. R. A., except, of course, that it did not include section 7 (a), giving labor the right to organize. American business was already on record as favoring self-rule for business; that is to say, granting business the right to ignore the Sherman antitrust law, permitting them to form trade associations, restrict output, maintain prices, eliminate competitive practices that absorbed profits, and so forth. In short, American businessmen were not averse to regimentation if it increased their profits.

Just now there is considerable pressure upon Congress to enact the Black-Connery bill, which is designed to make labor a scarce commodity, by limiting the number of hours of work per week that a workingman can sell. Laboring men are, of course, anxious to work as long and earn as much as possible, and their support of the bill is, therefore, a bit half-hearted, but it might be said that the philosophy of scarcity for labor embodied in the Black-Connery bill comes as close to expressing the demands of labor as any proposal that has been advanced. Many intelligent labor leaders are not enthusiastic over the bill, because they know that to the extent that hours are cut and wages maintained the cost of labor is increased, and an inducement provided for the replacement of men by machines.

Now the American people have become accustomed to new symbols. The farmers are willing to accept regimentation if it is their kind of regimentation. Businessmen are willing to accept their kind of regimentation, although with more enthusiasm in periods of depression than boom. The workmen also believe in regimentation if it will make of labor a scarce commodity.

SCARCITY MONGERING A FALSE HOPE

But with the acceptance of these symbols which, in the final analysis, means state control, the conviction is growing that our problems will be solved not by scarcity mongering but by enabling industry to operate at maximum capacity. The Industrial Expansion Act merely takes the instruments of regimentation that the New Deal has sold to the American people to further scarcity, and uses them to achieve abundance. It does not, like other liberal or radical programs, try to introduce to the American people a completely new set of symbols. It seeks to utilize the old symbols that the people have already accepted. The Industrial Expansion Act is merely New Dealism put on the track headed for abundance rather than scarcity. It recognizes, of course, that many of the old liberals are horrified by any proposal that would give the Government the power contemplated in this bill. These people apparently feel that we have recaptured business as usual and can repeat the history of the past 50 years. They do not realize that, while our present prosperity looks natural, it is largely due to some sixteen or twenty billion of New Deal spending and that, as a matter of fact, the next depression is now being staved off only by the confidence of the American people that the Government would spend us out of it as it did last time plus—what is much more important—the stimulating economic effect of the next world war.

A DREARY ALTERNATIVE

There is every reason to believe that this intensive preparation for war throughout the world will inevitably result in another world war more far-reaching than the last one. It is to be assumed that we will continue to benefit from war trade insofar, at least, as foreigners own American securities that can be conscripted by their respective governments, sold, and converted into purchasing power here. Eventually, however, we shall come to the end of that type of purchasing power, and we shall then be faced with the problem that faced us in 1916 and 1917—having to terminate a profitable foreign trade and face a severe depression at home—or work the people up to a war psychology, enter the war, and continue to supply our allies with the raw materials and munitions of war, financed by the sale of war bonds to our own citizens.

WAR DEVOURS WAR-BORN PROSPERITY

If we are to avert the catastrophic effects of terminating profitable war trade, it will be only as a result of setting up a system under which American industry can operate at full capacity, not to wage a war which devours the prosperity it creates but to turn out for all the American people the goods and services that they need and want in their ordinary, normal, peace-time pursuits.

FASCISM THE REFUGE OF THE DISPOSSESSED

There is, to my mind, no greater stupidity to be found in the United States today than the assumption by many so-called national liberal leaders "that we have recaptured normal prosperity and business as usual." It seems to me, in the first place, that they are forgetting that our present prosperity is due to Government spending and intensive world-wide preparations for war, which by the very nature of things are not permanent, and, moreover, if it were possible to get on indefinitely as we are doing, running a deficit of two or three billion a year for relief purposes, we cannot assume that the 20 percent of the people outside the economic system will remain politically impotent and economically helpless. If the so-called liberals are to continue to support a policy that contemplates the permanent exclusion of these people, 20 percent of our people will be given no real alternative, from an economic standpoint, than to join a Fascist movement, which is certain to develop in this country under intense economic stress and strain just as it has in other countries. I am disgusted to find the so-called nationally known liberal leaders taking the initiative in the fight against what they term Roosevelt's attempt to concentrate power in the hands of the Executive.

When the next depression strikes, the Government will have to assume a degree of control heretofore unknown in this country. When that time comes, the key to the whole situation will be the power of the Federal Government. The power of the Federal Government may either be turned over to a reactionary military clique—and in no country is the military more reactionary than in the United States—or it may be exercised by a democratically controlled

administration that will seek to use its power over industry to improve the living conditions of the people as a whole.

To many liberals thinking in terms of an ultimate and logical solution, the Industrial Expansion Act is far from satisfactory. To them I should like to point out that the real reason for the common man's refusal to take seriously the proposals of the Socialist Party or any other progressive group offering a logical system is that he does not trust any group to operate American industry as efficiently as its present owners are doing. If the Government could step up production from $65,000,000,000 to $95,000,000,000 a year, this doubt would be effectively removed. It is certain that if this were once done, the American people would never again stand for operation of the productive machine at less than capacity.

Many purists will object that this plan does not socialize the means of production, that private ownership of the means of production and the taking of the lion's share in the form of profits will still exist. That is true. Under the Industrial Expansion Act it is contemplated that 10 percent of the increase in production will go to the owners of American industry in the form of profits. But, in the final analysis, when enough support has been built up to put the Industrial Expansion Act into operation the American people will understand that any income in the form of wages or profits that cannot be spent for consumers' goods by the recipient, and for which there is no need for capital-goods purposes, must be taken over and converted into the channels of consumption through the instrument of taxation.

Under the provisions of the Industrial Expansion Act the Federal Government will contract with industry to maintain the price level and to buy unsalable surpluses. The Government, therefore, assumes the factor of risk. The manufacturer or entrepreneur will cease to be the risk taker. In the meantime production will be stepped up to limits approaching maximum capacity. The needs of the people will be taken care of and they, in their own good time, can determine how long society shall continue to pay an owning class for the performance of a function that has been relinquished to the Government.

MONOPOLY CONTROL

BY CONGRESSMAN JERRY VOORHIS

Neither democratic government nor a system of free enterprise can long survive a continued growth of monopolistic control of industry, production, price, or finance. The chance to "play the game" is the right of all. An insistence on the privilege of not playing it and at the same time preventing others from doing so is indefensible.

The arch-crime against a democratic people today is the crime of nonproduction where there could be abundant production. It has taken a terrible war to teach us that—though we should have learned long years ago that all the "isms" and dictatorships, as well as many of the war machines in the world were being built out of the frustration of peoples who knew no other way of ending a condition of unnecessary scarcity where there might be plenty.

Today, at least, it is clear that no nation can expect to survive as a significant power in the world unless it achieves a full employment of its resources, its machinery, and its people. The task of democracy is to achieve this without abandoning constitutional government or free enterprise.

To jump at once to a conclusion it may be said with emphasis here that the thing democracies must do, therefore, is not to restrict enterprise where it is free, or to reduce production where it is abundant, but rather to require that those areas of its economic life which are not free, must become so, and that artificial restrictions on production must cease.

Much can be accomplished and with little or no loss of liberty by the establishment of a system of monetary controls, taxation, and social security payments, which will regularize and make dependable the general flow of purchasing power in the Nation.

But, however well this is done; however well satisfied business might be with the administration in power; and however great "confidence" might become, so long as there remains in and is exercised by private groups the power to artificially cut down production and increase or maintain price, the whole economy will be thrown off balance and full production will be impossible.

A fair and just way must be found, therefore, to bring about a coordinated increase in production by all industry, including the monopolistic ones.

For example, let us take the case of clothing. In 1929 we could have produced and our people needed to use about twice the quantity of clothing that actually was produced.

At the same time, one of our great problems in the United States is that of profitable disposal of the cotton crop. The most obvious answer to this problem is the production of more clothing for our own people. This cannot be effected, however, unless it can be demonstrated that

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additional buying power, properly distributed, will be in the hands of all the people. Hence, the production of the clothing we need depends in turn on increased production and employment in housing, glass making, printing, and other industries.

We may say with perfect accuracy that because we do not clothe our children in America—nor, of course, our men and women, either—we are forced to subsidize our cotton farmers or see them ruined, and we are forced to continue a great program of Government work relief. And the other side of it is that if we determined the volume of our clothing production on need for clothing instead of on the present severely restricted ability of the people to buy it, and then saw to it that buying power with which to purchase the clothing was created by other production, then, by clothing our people, we could solve the problem of cotton and end the relief problem all at once.

Why, then, do not we do it?

Why do we do exactly the opposite of the sensible thing?

Briefly, the reason seems to be that Americans have learned to think almost exclusively in terms of the welfare and dollar income of the individual producers, and seldom, if ever, think in terms of the welfare of all producers or of the people as consumers.

Certain it is that the only reason we permit this practice of refusal to produce—or nonproduction—to go on is because we do not recognize the disastrous effect of what we are doing. It does not, unfortunately, sound ridiculous to us to say what obviously is true, namely, that we are today permitting production to be limited to the amount of goods that can be exchanged for money by the producer. But let us analyze this practice and see what it leads to, for it is the root of our trouble.

Manufacturers, processors, and other producers turn out goods today only when they believe that people with dollars are ready to buy them. And people only receive dollars by receiving wages or some other return from previous production. In no other way is real purchasing power created. The dollars themselves, of course, are not wealth. But they rule our lives. When small amounts of purchasing power are distributed, therefore, either because of small production or because a few people keep an inordinately large share of the purchasing power, we find our producers reducing production to meet what is called "effective demand." But clearly, for the people as a whole, what is needed under such circumstances is to increase production and improve the distribution of the income from it, which in turn would make more production possible.

But each individual producer sees a different picture. He believes that if his particular product can be made scarce and its price kept high, then he will get more dollars and be better off. If other producers do not do what he is doing, if they go on producing plenteously, as our farmers have done for so long, then this producer who restricts his output will be right in thinking that he or his corporation will benefit from short production and high prices.

If, however, all other producers follow suit and also reduce and raise prices, the advantage to the first producer is more than canceled and the only result is an impoverishment of the Nation.

In the second place, each individual producer is also an employer, and as such he largely controls the payment of wages. And wages make up 80 percent of all the buying power of the Nation with which the products of all employers are to be bought. Clearly it is to the advan-

tage of employers generally if good wages are paid by all industry. But it seems to be to the advantage of the individual employer to cut wages wherever possible so his particular costs will be reduced. Otherwise, if competition is severe, he may be forced out of business. Thus, the advantage of the individual producer and employer is to reduce his production, keep his prices high, and cut his costs by cutting wages. But the welfare of all society demands that just the opposite be done in all these cases.

Why have we made these terrible blunders? Because we have learned to think only in terms of dollars or token wealth, not in terms of real wealth; and because, as has been said, we look at our whole economic problem through the eyes of the individual producer instead of the eyes of producers as a whole, or consumers as a whole, or society as a whole.

The present problem is made the more severe because, apparently, we as a Nation have adopted the policy of encouraging scarcity which benefits the individual producer at the expense of the balance of society, instead of the policy of encouraging full production, for which, as has been described, the very nature of man cries out. Notable exceptions to this national policy are the Federal power policy—T. V. A.—the conservation program, the work of the Anti-Trust Division of the Department of Justice, and the Surplus Commodities Stamp Plan.

Everyone wants a balanced Budget and an end to increases in public debt.

Everybody wants an increase in production.

Everybody wants the unemployed to go back to work in private industry.

Everybody wants a better home market for our agricultural and industrial products.

Everybody wants to save our constitutional democracy and understands—down deep in his heart, at least—that this can only be done if within the framework of that democracy we can solve the problems of unemployment, nonproduction, and poverty in the midst of possible plenty.

And everybody wants the other fellow to make the first move toward accomplishing any of these things.

It is obvious that the troubles we face are in the nature of a vicious circle—or cycle. Producer A would like to hire more men and produce and sell more of his goods. But he will not, and probably does not dare, do this because, at present, he has no assurance that producers B, C, D, E, F, and so forth, will do likewise. And unless they do likewise producer A will have no market for his increased production unless the Government hires more people on public works.

The only answer, therefore, to the problem of producer A, and all other producers, is either for the Government to furnish him a market or for some method to be found so that all other producers will increase their production at the same time. A general expansion of production all along the line must, therefore, be the alternative to increasing public expenditures.

But the thing is more complicated than that. For there are some producers in the Nation, like farmers and small competitive manufacturers, who cannot decide how much they are going to produce. Economic necessity drives them to produce as much as possible because, unless they do so, someone else in their same line of work will do so and take even what curtailed market there is. As long as

monopolistic industry refuses to increase production, agriculture is doomed because the farmer's crops will be sold in a glutted market, while most of the things he has to buy are produced under conditions where the volume of production as well as the price charged can be largely if not entirely controlled by the deliberate decisions of a comparatively few individuals or corporations. The small industrial producer finds himself in the same fix as the farmer.

And so we can understand that it is monopolistic industry that in large measure holds the key to national prosperity. For by curtailing production—for whatever reasons—not only is employment reduced in one industry but the market for goods of all other industries is made smaller. And, furthermore, since monopoly can, generally speaking, exact such prices as it chooses, there is a constant tendency for all competitive producers to be robbed of a portion of their share of current purchasing power and for surpluses to accumulate not only of goods on the shelves of merchants but of idle funds in the coffers of monopolistic industries. As soon as this latter tendency makes itself felt, then a larger proportion of current national income is withdrawn from the general market for goods, and depression deepens.

Many people are arguing today that "if only Government would get out of the way, business would move ahead." Perhaps for a brief time that might happen. But it could not last for a number of reasons. Chief among them is that however "free" business may become, its advance will not be steady or well balanced unless united effort is put forth to bring this about. We need a continuous, effective distribution of the purchasing power represented by goods and services produced. And we need to see to it that a few very powerful highly organized industries do not crowd out all the rest when it comes to obtaining the profits from increased business activity. The "confidence" that a few people may be able to profit greatly because a much larger number are about to lose their shirts is hardly a sound basis for national prosperity. And, finally, no "boom" can possibly last unless, while it is on, provision is made for stepping up general consuming power as fast as production increases.

The confidence that must be given to the producers of America, if we are to have lasting prosperity, is the confidence that production is going to increase steadily and evenly all along the line. We have got to enable people to be sure that other pay rolls beside their own are going to increase, for it is in those other pay rolls that they will find their principal market.

It is evident that business unaided cannot bring about this condition of general steady balanced increase of employment and production. It may not even be to the interest of all monopolistic industries to see an abundance produced.

Therefore we come to consideration of a measure called the Monopoly Control Act. The basis of the bill is twofold: First, that all America will benefit from a general increase of production and restoration of private employment, and that it is entirely possible to accomplish both these things; second, that the one thing a nation has an unquestioned right to demand of a monopolistically controlled industry is that it use its productive machinery to turn out at least as much of its product as the nation really needs. It is a bill to get people back to work in private industry by assuring each private industry that all other private industries will have large enough pay rolls to consume their goods.

The bill does not affect any industry or business unless it is a major producing industry and also is found to be engaging in monopolistic practices. Other industries may come in under the bill if 70 percent of both employers and employees vote to do so. Otherwise they do not have to. In effect, what the bill does is provide machinery through industry councils and a monopoly control commission to bring about a coordinated expansion of production in all lines at once. In return for this a production-insurance corporation is set up to guarantee all participating businesses against loss due to increasing their production.

An abstract of the main provisions of the bill follows:

The Monopoly Control Act proposes a new attack on the problem of the monopolistic control of certain industries. Since the purpose of monopoly is the obtaining of excessive profits through the limitation of production and the maintenance of high prices, the bill proposes a direct attack on the reduction of interstate commerce by expanding the production and controlling the prices of monopolistic industries of the country. A general expansion is planned of all of the monopolistic industries of the country, as well as of competitive industries which may voluntarily participate in the program, under provisions for raising wages and lowering prices through the economies resulting from increased production, the expanded production being distributed and consumed through the increased employment provided by the program.

Section 1 lays down the policy of Congress to remove the hindrances on interstate commerce by expanding production, expanding markets for farm and industrial products, and controlling monopolistic practices.

Section 2 consists of definitions. The act applies only to the major industries of the country operating in interstate commerce. Professional, domestic and personal service, and trade occupations are excluded, as well as the printing and publishing industries. Interstate major industries in which monopolistic practices are found to prevail come under the act compulsorily, while competitive major industries may adhere voluntarily, to secure the benefits of the act. Monopolistic practices are defined to include the following prevailing practices or situations: Selling prices which do not fall after unit costs of labor and material fall; control of the majority of the production of an industry by a very small number of companies; long continued profits far in excess of those earned by competitive industries; control of vital patent rights in the hands of a small number of companies using them exclusively; failure of prices or wages to reflect technological improvements; and prices set in accordance with a basing point system. Provision is made for public hearings, with due notice to all interested parties, before decisions are reached under the act.

Section 3 creates a Monopoly Control Commission of seven members, representing consumers, labor, agriculture, and large and small business. The Commission will administer the provisions of the act, being guided by the principle that the economic resources of the Nation are to be utilized as fully as practicable in the promotion of the national general welfare. It shall cooperate with other agencies of the Government and of labor and industry, especially through the industry councils to be described below.

Section 4 provides for the preparation each year of a national monopoly control and expansion program. The objects of this program

are the balanced expansion of production simultaneously in the interstate industries of the country, providing for increased employment within the limits of the available manpower. It is also to provide for the gradual expansion in the productive capacity of the country, and the sharing of the benefits between management, workers, farmers, and consumers. Provision is made for the conservation of natural resources; the improvement or elimination of hazardous or undesirable conditions of work; the replacement of workers displaced from employment; the increasing of wages generally, and most rapidly in the lowest wage brackets; vacations with pay, reduced hours of work, and elimination of child labor and home work; the prevention of unwarranted increases of prices and the passing on of economies to consumers in the form of lowered prices; the reduction of waste in production and distribution; and a gradually rising assured annual minimum income to the unskilled and semiskilled worker in industry.

Section 5 provides for the setting up of an industry council in each participating industry, giving equal representation to management, labor, and consumers, in addition to representatives chosen by Congress and one representative of the Commission. The industry councils are to formulate and propose tentative expansion programs for their respective industries, to be submitted to the Commission for review and final approval. Under guidance from the Commission concerning the general program for national expansion, the councils will work out the practical possibilities of increasing production and allocate the resulting economies between higher wages, lower prices, and increased profits.

Section 6 provides for putting into effect the national expansion program when industry programs have been prepared for a sufficient number of interstate industries to insure a general expansion of the industry of the country. Maximum prices are to be set at such levels as will yield to participating industries a rate of profit on their used and useful assets equal to the higher of the following two standards: (1) The average earnings of businesses in competitive industries over the past 20 years, or (2) such earnings as will be necessary to assure efficient businesses in the industry the availability of private capital for their future expansion in capital equipment. Provision is made for the exclusion of particular industries if the Commission finds their exclusion will further the purposes of the act. Other major industries engaged in interstate commerce may participate voluntarily on an affirmative vote of the managements representing at least 70 percent of the products of an industry and of the representatives of at least 70 percent of the employees of an industry. On such affirmative vote a competitive industry becomes a "participating industry" to obtain the benefits of the act on the same footing as a monopolistic industry.

Section 7 provides for the setting up by the industry councils of quotas for each individual business in participating industries, to assure the balance and comprehensive expansion in the production of all the units in an industry. Maximum and minimum quotas within a given range are provided for, based on the average production of individual businesses over a past term of years. Provision is made for new businesses and for annual revisions in view of current production. Quantities within their minimum quotas which businesses

are unable to sell are to be purchased as provided in the next section. The purpose is to assure the increase in activity all along the line.

Section 8 establishes a Production Insurance Corporation as an agency of the Commission whose duties are to underwrite the expanded production. The Corporation will offer to each business in a participating industry a contract promising to take over, at stated intervals, at a price of not to exceed 90 percent of the maximum prices allowed under a program, any quantities within its minimum quota it is unable to sell. The Corporation may hold or dispose of such quantities in a variety of ways through subsequent resale to the businesses from which acquired, resale in the open market, distribution to those on relief, or holding over to a future period. In the last case such amounts are to be deducted from the quotas for the industry for the following year, to prevent the piling up of unused surpluses of any commodity. Where a participating business is unable to obtain necessary bank credit for its requirements, the Corporation may approve and guarantee such bank loans, under appropriate safeguards.

Section 10 provides for the licensing of businesses in participating industries. Where violations have been established, licenses may be refused, suspended, or revoked by the Commission after due notice and public hearing. Appeals are provided to the courts.

Section 12 provides for the readjustment of farm programs of the Department of Agriculture in line with expanding industrial activity, in order to assure adequate supplies of raw materials, bring about concurrent expansion in farm income, and increase the efficiency of marketing.

Section 15 provides that actions properly taken pursuant to this act will not be deemed violations of the antitrust laws.

Section 16 provides for the nonpartisan administration of the act.

Section 23 sets up an advisory Worker's Rehabilitation Board to coordinate the action of various governmental bodies in the replacement of displaced workers, and provides for payments to displaced workers while undergoing retraining.

Section 24: In order to encourage adequate standards of housing and insure that the housing industry will take its part in the expansion program planned for the Nation, this section makes special provision for the expansion of building operations in the low- and medium-cost housing fields not covered by existing agencies. The construction of low-cost rental houses is to be encouraged by a guaranty for a 30 year period of the net income from properties constructed under standards set up by the Commission. The building of houses for sale is likewise to be encouraged through contracts with the Production Insurance Corporation providing that houses constructed under standards set by the Commission and which remain unsold after 1 year will be taken over by the Corporation at a price which safeguards the actual costs of the builder, but not his profit.

Section 25: The separability clause contains the provision that if section 5 of the act is declared invalid, the whole act shall fall. This is to assure the democratic control provided through the industry councils.

Other sections cover various legal and administrative details.

It is clear from this abstract that this bill proposes to deal with unemployment in an entirely different manner than has our previous public action. It does not attempt to break up big corporations into

little ones or to hamper them in carrying on their regular business operations. On the contrary, it proposes to see that the productive capacity of our big-business units is turned loose to produce and employ men. It sets up means by which expansion in production can be made safe for business through Federal underwriting of increased production. At the same time it insures that the increased production will be moved into consumption by providing for higher wages and reduced prices. Yet the manufacturers are reasonably assured of increased profits, because with increased output and sales their costs will come down even faster than prices will be reduced. At the same time it assures farmers of increased markets for farm products and increased farm incomes—a much more satisfactory solution for the farm problem than the present program of subsidizing farmers in the place of providing adequate markets.

It is becoming increasingly apparent that the problem of unemployment is too big to deal with by any of the stop-gap methods we have used thus far. For a long time now we have had upward of 10,000,000 unemployed in cities, in addition to those on farms who are waiting for a chance at a city job. And even if industrial production should move up to a level of 130 on the Federal Reserve Board index, there would still be more than 6,000,000 nonfarm unemployed, and it is extremely doubtful that we will, even temporarily, reach a level of 130 under the single impulsion of the great governmental expenditures of the defense program.

The program here proposed, on the contrary, would provide for putting the entire 10,000,000 back at work over the next 2 to 4 years—putting them back to work in private industry, and would not be any direct cost to the Government. The Government would be taking a certain amount of contingent liability in underwriting the increased production, but any losses it might incur would be much less than what it would gain in increased revenues and reduced relief costs from increased employment.

During recent years a number of different groups have begun to realize more and more clearly that much more positive action than has yet been undertaken was needed to start definite moves toward reemployment and full production. One of the first steps was taken by the American Farm Bureau Federation at its annual meeting in New Orleans on December 15, 1938. The first resolution they adopted read in part as follows:

> Believing as we do that recognition of these principles by all groups, and translation of such recognition into action, is the only way out of our economic difficulties, we respectfully urge the President of the United States to call together representatives of industry, labor, and agriculture selected from a list of those recommended by the duly selected leaders of the three major economic groups, to discuss a program of action designed to promote economic balance between these groups on a basis that will permit full utilization of our great productive resources, and we further urge that in view of the serious effect of the present maladjustment, these representative leaders be kept in session until they have agreed upon such a program.

This important farm group recommended that the leaders of industry, labor, and agriculture be called upon by the President to prepare a program of increased production and employment. This resolution recommended two essential elements of the program which the Monopoly Control Act provides, (a) that leaders of business, labor,

and agriculture should participate in the development of a program, and (b) that it should be set up on a democratic basis.

It may be noted that the 1940 platform of the Democratic Party called for the same sort of action as the Farm Bureau advocated 2 years ago.

The American Federation of Labor in its Monthly Survey of Business has repeatedly called attention to this same problem. Thus, for example, in its February 1939 issue the statement was made:

> What are the next steps to expand production? First, Government, business, farmers, and labor must work together. We need regular channels through which business thinking and labor thinking can reach the Government and take part in policy making. Business has its advisory council to the Department of Commerce who are being called in for consultation, but labor has no open door for making its views known to the Executive. It is for the Federal Government to take the initiative in bringing representatives of labor, as well as business, farmers, and others into its councils to develop practical measures for immediate industrial expansion. * * *
>
> Any plan for industrial expansion must include labor. Democratic procedure requires that labor as well as business be represented and consulted by the Federal Executive. Labor's interest must be protected and wage gains must keep pace with rising production and profits. Any practical plan for expansion requires team work of all groups under Government supervision.

Similarly the June issue of the A. F. of L. monthly publication reemphasizes the same point as follows:

> Sound recovery in an age of mass production can only come through planning to advance all economic groups and timing undertakings so as to provide consuming power to buy output. Such planning, as advocated in our last issue, has two important features: The National Planning Board is (1) representative, and (2) continuous. Representatives of businessmen, labor, consumers, farmers, industrial engineers, should have a voice in formation of policies.
>
> Steady progress in production and living standards cannot be achieved unless all groups cooperate to carry out a workable plan for these ends. Businessmen, in the May United States Chamber of Commerce meeting, brought out a number of points bearing on recovery; their counsel and cooperation is needed. Labor counsel is necessary to aid in directing national social and economic policy toward provision for human needs, higher living standards, and better work conditions. The advice of engineers, heretofore not utilized on the plane of national affairs, is essential in the difficult problems of national planning, organization, and coordination which lie ahead. Counsel and cooperation from consumers, farmers, and other economic groups is equally important.

The fundamental technique used in maintaining production in the Roosevelt administration thus far has been that of public expenditure. At the same time it is clearly apparent that spending or investment alone, unless done in far more tremendous volume than heretofore, cannot deal with the problem of 10,000,000 unemployed. The theory of lack of "business confidence" and that with "confidence" restored business will invest enough to increase activity is illusory. The testimony of Owen D. Young and Alfred P. Sloan, Jr., and other industrial leaders before the National Temporary Economic Committee here showed clearly that their industries do not need capital and are now investing as much as they see markets for their products. Regardless of what party is in power, it will be faced with the same economic problems we are now faced with. Regardless of what party is in power, it will have to develop a program to provide increased employment through a broad program including the correction of monopolistic practices.

It may be that we will not adopt such a positive national program until another great depression reduces industry and finance to desper-

ation and leaves everyone willing to use strong and positive measures where weak and partial measures have failed. But whether we adopt a positive program such as this cooly and with foresight, or whether we adopt it hurriedly and frantically in the midst of another great depression, certainly it is important for it to be well considered ahead of time. This proposed bill is introduced in the hope that it will encourage the study and consideration of such proposals ahead of time so that if and when we finally do come to adopt them they will be as rational and sound as possible.

The program here proposed is complicated throughout by provisions for public hearings and participation in the central authority and in the industry councils of labor, consumers, and of business, and also by representatives of the Congress selected by that body; by provisions for votes and other procedures; and also by provisions of public hearings not only in each industry but eventually in each factory participating in the program. It will take longer to work out a program with all of this elaborate machinery, and the administrators will have many headaches in trying to compose the interests of the various groups who have to fight things out in various hearings and industry discussions. That is, however, part of the price we pay for democracy.

For what we must be constantly aiming at is not merely providing for economic security for the people but also maintaining freedom and liberty at the same time. The democratic process with its lumbering discussion groups and public hearings does provide means through which concerted action can be taken with the understanding and support of the whole people affected by the actions. Whatever one's views on its economic soundness, the A. A. A. program, with its township and county committees, and planning groups, and State and regional conferences, has shown that economic programs can be developed through democratic processes and that it is possible to plan from the grass roots up as well as from the top down. The Monopoly Control Act similarly provides for planning from the bottom up rather than from the top down. The democratic features in the bill do insure that such planning will give full voice and full opportunity to be heard to each participating interest.

The bill is so framed that unless the features of it which provide for democratic control stand the whole act becomes invalid. This is accomplished by a reverse separability clause. And furthermore there is no reason why a free democratic people should not be able by their own voluntary action to guard against the ravages of unemployment and the stagnation of nonproduction. Had a bill of this character been ready in 1932 and 1933 the people of the Nation—including the business leaders—might have welcomed it and it might speedily have brought us out of the depression.

There is good ground for a very real hope that by a scientific control of our monetary system and the flow of buying power to and from all groups of our people such a bill may yet be rendered unnecessary. But the bill is offered primarily as a basis for study, discussion, and consideration of the problem of private monopoly in what is supposed to be a free economy. For private monopoly deprives the Nation generally and other producers particularly of freedom quite as much as does governmental regulation. And private monopoly—

though it undoubtedly has contributed much to technological efficiency—contains within it the germs of destruction for democracy unless that democracy can guide the activities of monopoly into nationally useful paths.

The cure for every form of subversive activity in this country—the cure for fascism, nazi-ism, communism—is jobs for our workers and the saving of the business and property of our other people. This, then, is the task of Congress. In a way it is its only task. And it is, therefore, the duty of every Member to work diligently at that task until at last we succeed. It is in this spirit that this bill is offered.

[H. R. 7504, 76th Cong., 1st sess.]

A BILL To control monopoly and to encourage and protect commerce among the States, in order to assure continuous economic prosperity and security, increase the national income, and promote adequate and ever-rising standards of living limited only by the productive capacity and natural resources of the Nation.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this Act shall be "Monopoly Control Act"

FINDINGS AND POLICY

SECTION 1. The Congress, after hearings and investigations, finds—

(a) That the natural resources, technological processes and equipment, and productive capacities of the United States, if fully utilized and required to function in the public interest, will produce consumer goods and services sufficient to provide and maintain a high and more uniform American standard of living, will provide a full employment at adequate real wages for all able and willing to work, and will yield reasonable profits to invested capital;

(b) That there exist widespread involuntary unemployment and undersupply of human needs, disorganization of industry, business and finance, and wholly inadequate housing facilities for the bulk of our population, accompanied by low wages and low levels of living;

(c) That this involuntary unemployment and disorganization of industry have diminished the markets for the products of our farms and have thus burdened and obstructed the current of interstate commerce in these products. The restoration of employment and purchasing power in industry is necessary to restore the markets for, and interstate commerce in, our farm products and to assure an adequate income to farmers;

(d) That these conditions are created, among other things, by the existence of monopolies or monopolistic practices in many industries that burden, obstruct, and otherwise restrain interstate and foreign commerce, affect and injure the national general welfare, and undermine the standards of living of those who derive their livelihood from such interstate and foreign commerce; that these monopolies or monopolistic practices prevent economic coordination and exact excessive profits based upon undue restriction of production instead of reasonable profits based upon efficient use of capital invested;

(e) That private monopolies, monopolistic practices, and restraints on trade have resulted in unwarranted curtailments of production and employment, unwarranted advances in prices, unbalanced earnings by both capital and labor, the creation of excessive capital obligations, and restraints upon industrial developments and activities, all of which have prevented coordinated and constructive action in the public interest; and defeated efforts to promote full economic recovery; and

(f) That these private monopolistic practices and restraints on trade have resulted in an economy of scarcity and want where full employment and relative plenty for all are possible. Due to monopolistic practices of industry, the national general welfare is constantly endangered, interstate trade is obstructed, and chronic unemployment is produced. To promote the national general welfare and to remove these obstructions to the free flow of interstate and foreign commerce so as to increase the amount thereof, it is hereby declared to be the policy of the Congress to increase production of the monopolistic industries engaged in interstate commerce, to reduce and relieve unemployment, and to

promote a balanced expansion and operation of such industries and others (1) by developing and effectuating a monopoly control and national industrial expansion program; (2) by inducing and maintaining united action of labor, industry, agriculture, and consumers under adequate governmental sanction and supervision; (3) by assuring opportunity of employment to all, through expanding production in interstate commerce and gradually reducing the weekly hours of work to the levels made possible by the rising output per man-hour; (4) by reducing monopolistic prices, increasing pay, and improving standards of labor; (5) by promoting and expanding the utilization of the productive capacities of industry; (6) by increasing purchasing power and assuring its continuance; (7) by assuring an adequate and more balanced distribution to workers and owners of the earnings of industry; (8) by providing for the orderly development and conduct of industry; (9) by conserving and utilizing natural resources in the public interest; and (10) by doing all related things which are essential in order to effectuate the foregoing purposes.

DEFINITIONS

SEC. 2. As used herein—

(a) "Board" shall mean the Workers' Rehabilitation Board created by section 23 of this Act.

(b) "Books and records" shall include any books, records, correspondence, papers, documents, memoranda, contracts, and other written matter.

(c) "Business" shall mean individual entrepreneur, partnership, corporation, association, trust, or any business unit.

(d) "Commission" shall mean the Monopoly Control Commission created by section 3 (a) of this Act.

(e) "Competitive industry" shall mean any industry without evidence of monopolistic practices defined in section 2 (q) of this Act.

(f) "Consumer needs," for the purpose of carrying out the expansion programs provided for in this Act, shall mean an adequate level of living as disclosed by the budgetary standards of the Departments of Labor and Agriculture, revised to date. Where present consumption standards of higher-salaried workers are in excess of such budgetary standards, "consumer needs" shall mean their present standard of living, plus such an additional percentage of purchasing power as determined by the Commission, as will enable them to obtain the benefits of the increased output of the industrial expansion plan adopted by the Commission.

(g) "Coordinator" shall mean the Coordinator for Monopoly Control and Industrial Expansion created by section 3 (b) of this Act.

(h) "Corporation" shall mean the Production Insurance Corporation created by section 8 of this Act.

(i) "Due notice," unless otherwise provided for, shall mean publication on two separate days in the Federal Register of the United States within a consecutive period of thirty days. As applicable to notice by industry councils "due notice" shall mean publication in the Federal Register as hereinbefore provided and in addition publication on two separate days within a consecutive period of thirty days in a newspaper of general circulation within the appropriate area, or if no such newspaper be available, in newspapers of general circulation in substantially all parts of such area. At any hearing held pursuant to such notice, at the time and place designated in such notice, adjournment may be made from time to time without the necessity of renewing such notice for such adjourned dates.

(j) "Employee" shall mean any individual employed for wages or salary by any business subject to license under this Act. or by an agreement authorized under this Act, but shall not include any individual employed in a managerial capacity.

(k) "Employer" shall mean any business subject to license under this Act.

(l) "Employment" shall mean the quantity of remunerative work in a business or industry, based on the daily, weekly, or annual hours put in by employees as well as the number of employees.

(m) "Expansion program" for an industry shall mean the monopoly control and expansion program for that industry and individual businesses thereunder, as well as voluntary participation under section 6 (d).

(n) "Industry council" shall mean a body representative of management and labor in an industry covered by this Act, consumers of the products of the industry involved, and of the Commission, as provided in section 5 of this Act.

(o) "Interstate commerce" shall mean trade or commerce among the several

States, or between a State and any and all foreign nations, or between the District of Columbia or any Territory of the United States and any State, Territory, or foreign nation, or between any insular possessions or other places under the jurisdiction of the United States, or between any such possession or place and any State, Territory of the United States, the District of Columbia or any foreign nation, or within the District of Columbia or any Territory or insular possession under the jurisdiction of the United States. To constitute interstate commerce it shall only be essential that a portion of the trade or commerce shall affect interstate trade.

(p) "Major industries" shall mean the basic classifications of industries set forth in the Census of Population for 1930 (vol. V, ch. 7, pp. 408 to 410), included under the headings: "Extraction of Minerals, Manufacturing and Mechanical Industries", and "Transportation and Communication", together with the enumeration of their subdivisions thereunder, as well as related industries in each classification engaged in interstate commerce: *Provided*, That in defining and delimiting an industry for the purposes of this Act the Commission may designate subdivisions or combinations of the above census classifications having regard to their homogeneity of product, or raw material, or markets, or other operating conditions: *Provided further*, That none of the provisions of this Act shall apply to businesses wholly engaged in industries under the above 1930 census enumeration under the headings: "Printing, publishing, and engraving", "Trade", "Public service", "Professional, domestic, and personal service", or their subdivisions thereunder.

(q) "Monopolistic practices in an industry" shall include any one of the following prevailing practices, or practices which bring about any one of the following prevailing situations in the industry:

(1) Selling prices which do not correspondingly decline within a period of not to exceed six months after a decline in the unit prices of materials, labor, and other factors which enter the costs of production; or

(2) Average profits by the businesses in the industry over the period of the previous twenty years, in proportion to their invested capital, 50 per centum or more in excess of the average profits earned by business in competitive industries during the same term of years. For the purpose of this paragraph, "competitive industries" shall mean cotton textile manufacturing, men's and women's clothing manufacturing, silk stocking production, and wholesale and retail trade; or

(3) Control of vital patent rights lodged in the hands of five or a lesser number of businesses and not available to other businesses except at excessive royalties which make effective competition impossible; or

(4) Reductions in employment due to technological improvements without corresponding reductions in prices or increases in wage rates per hour; or

(5) Control of not less than 75 per centum of the production of the industry by not more than five businesses or not less than 50 per centum by not more than two businesses; or

(6) A geographic structure of prices characterized by differentials based on a basing point or similar system not based on regional costs, including production and transportation costs.

(7) For the purposes of paragraphs (3) and (5) hereof several businesses, actually controlled by a holding company or similar device, shall be considered one business.

(r) "Participating industries" shall mean major industries which the Commission has found to be (1) engaged in interstate commerce, and (2) engaged in monopolistic practices, as provided by section 3 (k), and which have not been excluded under the provisions of section 6 (c), and also competitive major industries which have voluntarily elected to operate under an expansion program, as provided by section 6 (d).

(s) "Public hearing" shall mean a hearing, upon due notice, open to interested parties and the public at the national office of the Commission or other public place it shall designate.

(t) "Used and useful assets" shall mean only such assets as are necessary in the operation of the business and in the production of its products, and shall exclude investments in other businesses not necessary for such production, inactive cash balances in excess of those needed, as well as other assets not essential for the conduct of the business.

MONOPOLY CONTROL COMMISSION

SEC. 3. (a) There is hereby created the Monopoly Control Commission, hereafter called the Commission, an agency of the United States Government, which is

authorized and directed to administer the provisions of this Act. It shall consist of seven members appointed by the President with the advice and consent of the Senate. In such appointments the President shall give due regard to securing persons having expert knowledge of the problems of consumers, labor, agriculture, and large and small business, all of whom have demonstrated disinterested conspicuous, public service. The chairman of the Commission shall be designated annually by the Commission. Of the first seven members appointed, two shall serve for a term of one year, two shall serve for a term of two years, and the remainder shall serve for terms of three, four, and five years, respectively, but their successors shall serve for terms of five years each. Each member shall be eligible for reappointment, shall receive a salary of $12,000 per year, and shall not engage in any other business, occupation, or employment, and on assuming office shall have no direct or indirect business interest in any enterprise subject to the provisions of this Act.

(b) In order to execute their policies, plans, orders, and regulations, the Commission shall appoint as an executive officer a coordinator for monopoly control who shall be subject to the Commission and who shall receive a salary of $12,000 per year. After his appointment he shall not engage in any other business, occupation, or employment, and shall have no direct or indirect business interest in any enterprise subject to the provisions of this Act.

(c) To effectuate the policy of this Act, the Commission is authorized to establish such agencies, and with due regard to the provisions of the civil-service laws and the Classification Act of 1923, as amended, to appoint such employees, and, without regard to the provisions of the civil-service laws or the Classification Act of 1923, as amended, appoint and fix the compensation of such attorneys, engineers, and special experts, as it may find necessary to carry out the purposes of this Act.

(d) The Commission is authorized to accept and utilize the services of such Federal officers and employees and, with the consent of the State, such State and local officers and employees, as it may find advisable.

(e) The Commission may delegate any of its ministerial functions under this Act to such agencies, officers, or employees as it may designate.

(f) The Commission shall be guided by the principle that the economic resources of the Nation are to be utilized as fully as practicable in the promotion of the national general welfare.

(g) The Commission shall cooperate with industry councils, hereinafter provided for, and, in its discretion, with other organizations and associations of business, farmers, labor, and consumers, in order to carry out the purposes of this Act.

(h) The Commission shall submit annually to the President and the Congress a report covering the work of the Commission and of its agencies for the preceding year, and giving such information, data, and recommendations for further legislation as it may find advisable.

(i) The Commission may enter into contracts and agreements which it deems advisable for the effectuation of the purposes of this Act.

(j) Whenever the Commission makes decisions of policy or lays down general rules, it shall follow a policy of stating the reasons for or the bases of such decisions and policies, and as far as practicable shall publish summaries of the memoranda on which such decisions and policies are based.

(k) Prior to the preparation of industry-expansion programs, the Commission shall survey the practices of the major industries and determine which are engaged in interstate commerce, and are engaged in monopolistic practices, in accordance with the definitions of section 2, subsections (o) and (q), of this Act. The Commission shall cause public hearings to be held to consider the evidence. On the basis of its investigations and these hearings it shall find which major industries are engaged in interstate commerce, and are engaged in monopolistic practices, as defined in this Act, and shall proclaim them to be participating industries.

(l) Within thirty days after a proclamation by the Commission that an industry is a participating industry, as provided in subsection (k) of this section or in section 6 (d) of this Act, each business in such industry shall file a registration statement with the Commission specifying in substance the nature of its activities; the names of its owner or owners if an individual or a partnership, or if a corporation, the names of all stockholders owning more than 10 per centum of the stock each; the average number of employees and the average monthly pay roll in the preceding calendar year; the approximate aggregate

value of its production in the preceding calendar or fiscal year; and such other pertinent information as the Commission may by regulation require.

(m) It shall be the duty of the Commission to regulate the activities of all businesses in participating industries by requiring them to follow the expansion programs for their respective industries with respect to volume of production, employment, wages, maximum prices, and other aspects of the programs.

NATIONAL MONOPOLY CONTROL AND EXPANSION PROGRAM

SEC. 4. (a) To control monopolistic practices, a national expansion program shall be prepared annually, or for such other period as the Commission shall determine, for participating industries, which program shall cover the United States, its Territories, and possessions. The program shall provide (1) for an expansion of production which shall be possible within the limits of the industrial resources of the Nation; (2) for increased employment within the limits of the available manpower; (3) for expanded production of each product in balance with estimated consumers' demands and capital goods requirements; (4) for a gradual expansion in the productive capacity of the country in line with long-time plans for capital expansion in each industry; (5) for increases in pay rolls, and for increases in wage rates and decreases in prices where possible as a result of decreased costs from expanded production or from technological improvements, which will facilitate the movement of the expanded products of all industries into consumption.

(b) The national-expansion program shall be so devised as to provide not only for increased production, employment, and pay rolls, but also so far as is practicable for:

(1) The conservation of natural resources;

(2) The improvement or elimination of hazardous or undesirable conditions of work;

(3) The replacement of workers displaced from employment;

(4) The increasing of wages generally, and most rapidly in the lowest wage brackets;

(5) Vacations with pay, reduced hours of work, and elimination of child labor and home work;

(6) The prevention of unwarranted increases in prices, the passing of economies on to consumers in the form of lowered prices, as specified in section 5 (g);

(7) The reduction of waste in production and distribution;

(8) A gradually rising assured annual minimum income per worker which will avoid the low levels of living found by Congress as recited in section 1 of this Act, and which as soon as practicable shall be at a level sufficient to support the unskilled and semiskilled worker and his family in decent health and comfort, in accordance with budgetary standards of the Departments of Labor and Agriculture, as revised to date, and of other branches of the Government, with the maintenance of reasonable differentials, above this minimum, for skill, hazards, and responsibilities;

(9) The program shall provide, as soon as practicable, for the employment of all persons fitted for employment in each industry, either by increasing the number of persons employed or by reducing the average hours per week to not below thirty hours.

(c) Where increased prices in competitive industries which elect to participate in the program are necessary to provide reasonable and equitable wages in those industries, and where such price increases are needed to balance price decreases in other industries under this Act to maintain substantial stability of the price level, the Commission may include such provisions in expansion programs for such industries.

INDUSTRY COUNCILS AND PROPOSED INDUSTRY PROGRAMS

SEC. 5. (a) Within ten days after the Commission finds that certain major industries are engaged in interstate commerce, are engaged in monopolistic practices, and are not included in the provisions of section 6 (c) of this Act, an industry council shall be formed for each such industry, or combinations or subdivisions of such industries as set forth in section 2 (p) of this Act. The Commission may recommend the formation of councils for regional areas or for coordinating purposes and shall designate representatives of the Commission to work with, and assist in the organization and operation of, all industry councils. Councils for regional or for coordinating purposes shall be formed, and determi-

nations of the Commission as to combining or subdividing industries shall be made, after public hearings called by the Commission.

(b) The industry councils shall be composed of an equal number of representatives of management, labor, the consumers of the industry's products, and Congress, and one representative of the Commission. The representatives of management shall be selected by the constituent businesses, under a plan approved by the Commission, assuring proper representation of the several classes of the constituent businesses, so far as is reasonably possible, on the basis of geographical location, size of business, nature of the market, sources of raw material, and other operating conditions. The labor representation on each industry council shall be selected by those representatives who shall have been chosen by the labor organizations in each said industry to represent them under and pursuant to the provisions of the National Labor Relations Act, and if there be no labor organization for such industry, the labor representatives shall be selected through elections conducted by the National Labor Relations Board. For the first two years after this Act goes into effect the representatives of the consumers shall be chosen by the Commission from a list of nominees submitted to the Commission by consumer organizations, including farm organizations, consumer cooperatives, and similar groups. Thereafter Congress will provide for elections of such consumer representatives by referendum or otherwise. The representatives of Congress shall be selected in such manner as the Congress may determine. If, in the case of a participating industry, the representatives of any of the above groups are not duly selected within a reasonable period, or fail to function, the Commission is empowered to appoint such representatives until other representatives are duly selected and function as provided in this subsection. Representatives on the industry councils shall be selected for terms of not to exceed two years, but shall be eligible to be selected to succeed themselves.

(c) In addition to the duties specifically provided for herein, it shall be the duty of the industry councils, at the request of, and in accordance with rules and regulations laid down by the Commission, to assist it in the administration of this Act. All such administrative action by said councils shall be advisory only, and shall become binding when approved by the Commission.

(d) Industry councils shall not regulate prices, terms of sales, or methods of competition, or regulate production: *Provided, however*, That determinations for maximum prices and business quotas made, subject to the approval of the Commission, as provided in sections 6 (b) and 7 (c) shall be a function of the industry councils. Other matters concerning unfair trade practices and fair methods of competition shall continue to be the responsibility of the Federal Trade Commission and other governmental agencies charged with such duties under existing legislation.

(e) The industry council for each industry shall formulate a tentative expansion program for its industry, taking into account past and potential consumer needs, production, employment, and pay rolls in its industry, and under regulations of the Commission shall conduct public hearings for the consideration of said program. Following such hearings, each industry council shall make findings based on the evidence produced at the hearings, shall make such modifications in its tentative program as the evidence and findings shall warrant, and submit the program to the Commission for approval or disapproval. In case the Commission disapproves any such program it shall state its reasons for such disapproval to the industry council and the industry council shall prepare a modified program and submit it to the Commission.

(f) In preparing expansion programs for participating industries, the general policy of Congress is hereby declared to be as follows: The profits of such industrial expansion in the industries where production is insured shall be limited to the usual per centum return earned by capital invested in industries which do not engage in monopolistic practices and which have not voluntarily agreed to come under an expansion program in accordance with section 6 (d). The remainder shall be apportioned on an equitable basis as decided by the industry councils and approved by the Commission to consumers in the form of lower prices, to workers in the form of shorter hours of labor in order first to reduce unemployment, or in the form of higher wages.

(g) The annual or other expansion program for each participating industry shall include an estimate of the reduction in the average unit cost of production which will result from the increased production under the program and from technological improvements; and shall show what part of this reduced cost is to be allocated to lower selling prices, what part to higher wages, and what part to increased profits. The maximum rate of profit provided for under the program shall be based upon the standards provided in section 6.

(h) If any provision of this section or the application thereof to any person or circumstance is held invalid the remainder of the Act shall also be deemed invalid.

REGULATION OF MONOPOLY THROUGH THE INDUSTRIAL-EXPANSION PROGRAM

SEC. 6. (a) It shall be the duty of the Commission, with the aid of the tentative industry programs submitted by the respective industry councils, to formulate and publish an integrated national-expansion program for participating industries. The national program shall not be put into effect until it covers industry programs for a range of major industries employing not less than 50 per centum of all employees of all participating industries. After public hearings the Commission shall make findings based on the evidence produced at such hearings and may modify the national-expansion program as well as any industry programs. The Commission shall then approve the national as well as the industry programs and shall find and make them effective within such period or periods not exceeding sixty days after date of approval, as in the judgment of the Commission will further the purposes of this Act.

(b) In preparing the expansion program for each participating industry, the maximum prices shall be set by recommendation of the industry councils, approved by the Commission, at such levels as are calculated to yield, with the wages, hours of work, volume of production, and other conditions assured by the expansion program, an average return on the used and useful assets of the businesses therein (taken from financial reports as submitted to the Bureau of Internal Revenue) which shall be equal to either (1) the average earnings of businesses in competitive industries over the past twenty years, including net losses as well as net profits in the average, as shown by the corporate income-tax reports verified by the Bureau of Internal Revenue; or (2) such earnings as will be necessary to assure efficient businesses in the industry the availability of private capital for their future expansion in capital equipment under the program. If the business submitted no reports of used and useful assets to the Bureau of Internal Revenue, or if the Commission finds that such reports are inferior in accuracy or reliability to similar reports accepted by the Securities and Exchange Commission or other agency, or submitted to the Commission by the business, then the Commission may accept such substitute reports for the purposes of this section. In determining what rate of profit on their used and useful assets is necessary to provide for future investment, the Commission shall take into consideration the prevailing yields on stocks and bonds of various industries, the prevailing interest rates, and the declining risks under the expansion program as a result of the guaranties provided in this Act. The industry councils and the Commission shall select the rate of return given by rule (1) or rule (2), whichever is higher. For the purposes of this subsection, "competitive industries" shall mean cotton textile manufacturing, men's and women's clothing manufacturing, silk stocking production, wholesale trade, and retail trade.

(c) Whenever the Commission finds that an industry, though engaged in interstate commerce and characterized by monopolistic practices, is of such small or declining size, or employs so few people, that it may be excluded from the national expansion program without weakening the effectiveness of the program, said industry and businesses engaged therein shall then not be subject to this Act until the Commission finds otherwise.

(d) Apart from industries engaged in monopolistic practices, major industries which are of a competitive character and which are engaged in interstate commerce may operate under an expansion program. The managements of businesses producing 10 per centum of the product of the industry or representatives of 10 per centum of the employees of the industry may petition the Commission to permit the industry to operate under an expansion program. Upon the receipt of such petition the Commission shall provide for a secret ballot of the management and the employees of the industry on the question of whether or not the industry shall operate under an expansion program. The Commission shall lay down rules and regulations governing qualifications of voters and details of elections. If the managements representing at least 70 per centum of the product of the industry, and the representatives at least 70 per centum of the employees of the industry favor participation in an expansion program, then the Commission shall proclaim the industry to be a participating industry; if the Commission finds, after public hearing, that the inclusion of the industry under an expansion program will benefit the employers, employees, and consumers of said industry, will promote a reasonable growth of the industry and full and continuous

use of its productive capacity, will raise the general standard of living, and will promote the general welfare. After the initial participation, an industry coming under the provisions of this Act under this subsection (d) shall remain thereunder unless and until the Commission, after hearings, reverses the foregoing findings.

(e) Participating industries shall base their activities upon the expansion programs for their respective industries once these programs have been approved by the Commission and placed in effect. It shall be the duty of the Commission, through the use of the licensing power provided for in section 10 of this Act to bar from operation businesses failing to comply with the applicable requirements of the programs for their respective industries.

Production Quotas

Sec. 7. (a) As a part of the expansion program for each participating industry, provision shall be made for the expansion in production and employment to be made by each individual business in that industry, in accordance with the provisions of this Act.

(b) The expansion programs for individual businesses in each participating industry shall be expressed in quotas, originally proposed by the industry council, and determined in accordance with the following standards:

(1) Quotas for the first year (or other period) for each category of product for each business shall be based pro rata upon the average production of the businesses during a specified past period of not less than one year nor more than ten years, or the existing plant capacity where a previous production period would be inequitable or would foster monopolistic practices or restraints on trade.

(2) The quotas for the first year (or other period) shall be computed by increasing the bases for each business, established in accordance with paragraph (1) of this subsection, by a percentage determined in such a manner that the total resulting production will equal the amount contemplated in the expansion program for the industry, each quota being subject to adjustment within a range of a specified percentage upward or downward to establish maximum and minimum quotas.

(3) No business in industries with approved expansion programs shall produce less than its minimum quota for any year or other period, without prior approval of the Commission. Quantities within the minimum quota remaining unsold at the end of the year or other period may be disposed of to the Corporation as provided in section 8 of this Act. If any business is not prepared to produce up to its minimum quota it shall give adequate notice thereof, and thereafter the excess shall be allocated equitably among the remaining businesses. No business shall exceed its maximum quota within a given year or other period without prior approval by the Commission.

(4) A reserve shall be withheld for businesses without previous production or capacity bases, amounting to 5 per centum of the total quotas for their industry. Any portion of this reserve not applied for by new businesses ninety days subsequent to the final allocation of quotas for the industry shall be allocated equitably among the remaining businesses. New businesses applying for quotas shall produce evidence satisfactory to the Commission of their responsibility and financial ability to produce the quota requested in accordance with the provisions of this Act.

(5) After the first year's (or other period of) operation of production quotas in an industry, the production quotas for the expansion program of each succeeding year shall be based upon the estimated sales of each business therein during the previous year (or other period). Such estimates of sales shall be based upon the actual sales during the first eight or more months of the year and the probable sales during the remainder of the year based upon the average or trend of sales in the first eight or more months, adjusted for expected seasonal variations. Quantities sold to the Corporation under the purchase agreements provided for in section 8 (d) of this Act shall not be included in sales for the purpose of calculating subsequent quotas. The quotas shall also be adjusted downward by amounts approximating the quantities of goods remaining unsold in the hands of the Corporation. A new business may retain its status as such for three years in order to obtain increased quotas from the 5 per centum reserve provided for in paragraph (4) above.

(6) In assigning quotas to businesses, the expansion programs shall disclose the increases in production, plant expansion, employment, and pay rolls assigned to each business for the succeeding year or other period.

(7) In establishing quotas, the industry councils and individual businesses shall at all times make their records available to the Commission, or its duly designated representatives, and shall furnish such information and shall prepare such reports as the Commission may designate. Businesses applying for quotas shall likewise make their records available to the Commission, or its duly designated representatives, for the investigation of any matter concerned with the expansion of production, employment, pay rolls, and related matters arising under this Act.

(8) Where the Commission finds that as a result of acts of God, dangerous conditions, strikes, or other causes beyond the control of the business, which reasonable diligence could not have averted, a business which has a quota under the provisions of this Act is unable to comply with the terms thereof, in its discretion the Commission may allocate such quota, or the unproduced portion thereof, equitably to the other businesses in the industry, or otherwise handle such matters in a way that will best effectuate the purposes of this Act.

(9) The acts of the industry councils pursuant to this subsection (b) shall be subject to the final approval of the Commission.

(c) After public hearings, and upon findings based on evidence produced at such hearings, the industry council shall suggest a tentative allocation of quotas for the businesses in its industry, in accordance with the provisions in this section and other provisions of this Act and shall transmit the same to the Commission for its consideration.

(d) The Commission shall hold public hearings on each such tentative allocation to businesses in an industry. Where findings based upon evidence produced at such hearings disclose substantial differences from the industry council's findings, the Commission shall afford the industry council a reasonable opportunity to examine same and submit its suggestions thereon. Thereafter, in its discretion, the Commission may make any changes which the findings make necessary and thereafter announce the allocation for the industry for the year or other period.

(e) All changes in quotas as provided in this section shall be referred first to the industry council for its suggestions and thereafter submitted to the Commission for its final action.

Production Insurance Corporation

Sec. 8. (a) There is hereby established as an agency of the Commission the Production Insurance Corporation (hereafter called the "Corporation"), a charter for which is hereby authorized by the Congress. It shall have a board of directors of five members, one of whom shall be designated president, and all of whom shall be appointed by and be subject to the Commission.

(b) The Corporation, subject to the approval of the Secretary of the Treasury in accordance with the terms of this Act, is hereby authorized to issue and to have outstanding its bonds in an aggregate principal amount not to exceed $1,000,000,000. Such bonds shall be in such forms, denominations, maturities, bearing such rate or rates of interest, and subject to such terms and conditions and shall be issued in such manner and sold at such price as may be prescribed by the said Corporation with the approval of the Secretary of the Treasury. Such bonds shall be fully and unconditionally guaranteed both as to principal and interest by the United States and such guaranty shall be expressed on the face thereof, and such bonds shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of the United States, or any officer or officers thereof. In event that the Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such bonds, the Secretary of the Treasury shall pay to the holder the amount thereof, which is hereby authorized to be appropriated out of the moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amount of principal and interest so paid, the Secretary of the Treasury shall succeed to all the right, title, and interest of the holders of such bonds.

(c) The Corporation shall assist and participate as directed by the Commission in such handling, carrying, warehousing, insuring, marketing, and distributing any products and/or services, necessary to effectuate the monopoly control, production, employment, and related expansion purposes of this Act.

(d) The Corporation is empowered to enter into insurance contracts with businesses covered by expansion programs under this Act, except where the Commission finds the product of the industry not to be suitable for such

insurance because of perishability or for similar reasons. Such contracts shall provide, in consideration of the business undertaking to increase its production and employment in accordance with the expansion program, that if the business is unable to dispose of any part of its production, up to the minimum quota set for it under the expansion program, such surplus will be purchased by the Corporation, provided that such unsalable surpluses are of acceptable quality, at prices not exceeding 90 per centum of the maximum price stated in each industry's expansion program, the rate of discount being uniform for each product under each expansion program. The Corporation shall have the power, in its discretion, to purchase such surpluses from time to time within a quota year or other period if sales of a business are falling behind a fair seasonal distribution of its quota.

(e) The Corporation shall have power to warehouse, hold, grant, market, sell, or otherwise distribute or dispose of such surpluses as will best effectuate the purposes of this Act. The Corporation shall cooperate with the Commission to see that these stocks are disposed of in such manner as will involve both a minimum loss to the Corporation and a minimum derangement to the succeeding programs of expansion. The disposition of such stocks may be accomplished by resale to the businesses from which acquired, resale in the open market, or otherwise. In connection with such disposition, the addition of surpluses to the current production shall be adjusted, as provided in subsection 7 (b), paragraph (5), in such manner as will permit the absorption of the surplus without undue hardship on producers or undue loss to the Corporation.

(f) Where industries or businesses thereunder participating in expansion programs render utility or related public services, and agree, with the appropriate regulatory agency where required by law, to reduce their rates, due to increased volume under an expansion program for their industry, the Corporation may contract to reimburse any such business up to a maximum of 50 per centum of the amount by which its net operating revenue falls below the anticipated net operating revenue at a level of operations equal to its minimum quota.

(g) To be eligible for insurance under this section, businesses shall furnish the Commission with such information on present and anticipated production, costs, rates of output, prices, or any other related information essential to effectuate the purposes of this Act.

(h) Where, in the discretion of the Commission, a business is essential to the execution of the quotas established by the Commission, and where such business requires bank credits to initiate or expand production as prescribed by this Act, the Corporation may certify to any bank or other lending agency that said business has a definite quota under the industrial expansion plan, and that the Corporation will assist in distributing and/or purchasing any unsold surpluses. Where such a business is unable to obtain bank credit, and after finding that such a loan is in accordance with the purposes of this Act, the Corporation may approve the application of such business for the necessary bank credit. Under conditions prescribed by the Commission, the Corporation may endorse notes and guarantee payment of such loans: *Provided, however*, That the proceeds of such loans shall be applied solely to the payment of the actual and necessary costs of production and shall not be used for the payment of any salaries in excess of $10,000 per year: *Provided further*, That such business shall be required to establish a prior lien on the business in favor of the Corporation, including the products thereof, until they are sold and the proceeds thereof are applied to the repayment of the bank or other credits: *And provided further*, That no guaranty shall be made as to any loan or loans in excess of $100,000 to any one business in any one year.

Appropriations

Sec. 9. (a) There is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums of money as are essential to carry out the purposes of this Act.

(b) The Commission is authorized, from such sums appropriated, to make expenditures for personal services, supplies and equipment, lawbooks and books of reference, directories and periodicals, travel expenses, rental at the seat of government and elsewhere, the purchase, operation, or maintenance of passenger-carrying vehicles, and printing and binding, and all other expenditures as are appropriate and necessary to carry out the purposes of this Act.

(c) For the purpose of administering this Act, and for the purpose of making the studies, investigations, publications, and reports herein provided for, there

is hereby authorized to be expended from the appropriation designated in this section, such sums as shall be necessary.

(d) All moneys of the Commission and its agencies not otherwise employed shall be deposited with the Treasury of the United States, or in any Federal Reserve bank, subject to check by authority of the Commission. As authorized by the Commission, such moneys may be used, among other purposes, in the purchase, redemption or retirement of any notes, debentures, bonds, or other obligations issued by the Corporation or by the Commission.

Licenses

Sec. 10. (a) After a business agrees in writing to comply with all the applicable requirements of the program of its industry, as approved by the Commission, and with all the applicable rules and regulations issued by the Commission, the Commission shall license said business to operate in interstate commerce.

(b) After the expiration of thirty days following the approval of an industry-expansion program by the Commission pursuant to section 6 (a), no article, commodity, or goods shall be shipped, transported, or delivered in interstate commerce which have been produced, manufactured, processed, or distributed by any business within said industry unless the business has been licensed by the Commission under the provisions of this Act.

(c) In issuing licenses and amendments thereto under this Act, the Commission shall prepare a tentative draft thereof for each industry, after public hearing: *Provided, however*, That amendments involving ministerial functions shall require only an order of the Commission. Unless otherwise specified, every condition in a license shall become effective immediately upon its issuance by the Commission. Upon the issuance of any license the Commission may provide that any or all of its conditions shall become effective on any date or dates within three months after such issuance.

(d) Where, after public hearing, the Commission finds by evidence that a licensee has violated any of the conditions of its license, or any orders of the Commission relating thereto, the Commission may bar the licensee from operation of its business by suspending or revoking such license.

(e) When the Commission is presented with evidence which it deems satisfactory that a licensee whose license has been suspended or revoked, and who has applied for its reissuance, will comply with the conditions contained in such license, and with orders of the Commission relating thereto, and will make restitution to parties adversely affected by the violation for which said license was revoked, the Commission may restore or reissue any such suspended or revoked license after due notice and public hearing.

(f) Any party aggrieved by any action of the Commission in suspending of revoking, or failing to issue, restore, or reissue a license, may petition any circuit court of appeals of the United States (including the United States Court of Appeals for the District of Columbia) in the circuit in which said party resides or has its principal place of business, for a review of said action of the Commission. A copy of said petition shall forthwith be served upon the Commission and thereupon the aggrieved party shall file in the court a transcript of the entire record in the proceeding, certified by the Commission, including the pleading and testimony upon which the action complained of was based and the findings and order of the Commission. Upon such filing, the court shall have jurisdiction of the proceeding and of the question determined therein, and shall have power to make and enter upon the pleadings, testimony, and proceedings set forth in such transcript a decree affirming, modifying, or setting aside in whole or in part the action of the Commission, or directing it to issue, restore, or reissue the license suspended or revoked. No objection that has not been urged before the Commission shall be considered by the court, unless the failure or neglect to urge such objection shall be excused because of extraordinary circumstances. The findings of the Commission as to the facts, if supported by evidence, shall be conclusive. If either party shall apply to the court for leave to adduce additional evidence and shall show to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the hearing before the Commission, the court may order such additional evidence to be taken before the Commission and to be made a part of the transcript. The Commission may modify its findings as to the facts, or make new findings, by reason of additional evidence so taken and filed, and it shall file such modified or new findings, which, if supported by evidence, shall be conclusive, and shall file its recommendations, if any, for the modification or setting

aside of its original action. The jurisdiction of the court shall be exclusive and its judgment and decrees shall be final, except that the same shall be subject to review by the Supreme Court of the United States upon writ of certiorari or certification as provided in sections 239 and 240 of the Judicial Code, as amended (U. S. C., title 28, secs. 346 and 347).

Cooperation by Government Departments and Agencies

Sec. 11. (a) The Interstate Commerce Commission; the Post Office Department; the Bonneville project, National Bituminous Coal Commission, Petroleum Conservation Division, and the United States Housing Authority of the Department of the Interior; the Securities and Exchange Commission; the Federal Power Commission; the Agricultural Adjustment Administration and the Rural Electrification Administration of the Department of Agriculture; the Federal Works Agency; the National Resources Board; the Tennessee Valley Authority; the Federal Communications Commission; the National Mediation Board; and other Federal agencies regulating, administering, controlling, or otherwise having relations with the industrial or economic activities of the industries affected by this Act, shall cooperate with the Commission in the preparation of expansion programs. When requested by the Commission they shall aid industries under their jurisdiction in establishing their expansion programs in order that the activities of these Federal agencies shall be coordinated with the expansion programs for their industries. Such coordination may be effectuated under their own Acts, or under this Act, where approved by the Commission.

(b) Each national-expansion program shall be coordinated with the Federal program of public works, self-liquidating projects and other Federal, fiscal, and investment activities, in order that such programs may be properly adjusted to each other. The Commission, the Fiscal and Monetary Policy Committee, and all Government lending agencies shall consult upon all such matters and coordinate their activities as they shall deem essential to effectuate the purposes and provisions of this Act.

(c) The Interstate Commerce Commission is hereby empowered and directed to cooperate with the appropriate industry councils to assist in preparing expansion programs. Where it finds that the increases in traffic and the resulting readjustments in working conditions will result in such increases in revenues or such reductions in unit costs as to warrant reductions in rates, it shall order such reductions in existing freight and passenger rates as will further the national-expansion program and tend to effectuate the purposes and provisions of this act.

Programs for Higher Farm Income and Increased Farm Production

Sec. 12. (a) It is hereby declared to be the policy of Congress that the Secretary of Agriculture, in cooperation with the Commission, shall adjust all the programs of the Department of Agriculture which affect the production or marketing of farm products in such manner as to assure that there will be an adequate supply of agricultural raw materials, and that the increase in the national income which will result from the programs under this act shall bring about a concurrent expansion in the income of farmers and their buying power for industrial products to as rapid a degree as is possible until such time as full parity incomes for farmers have been established, as provided in the Agricultural Adjustment Act. Thereafter agricultural programs shall be so adjusted to industrial expansion programs as to provide incomes for farmers increasing in due proportion to the increase in income of other members of the community. In adjusting the agricultural programs in view of the increases in national income, the Secretary of Agriculture shall be guided by the policy of increasing the volume of sales of existing marketing agencies, decreasing the unit cost of operations on such sales, thus making possible a reduction in the distribution margin between producers and consumers. The programs shall be administered, so far as possible, to provide increased incomes to farmers and at the same time assure reduced prices of farm products to ultimate consumers.

(b) In the furtherance of the policy in the above subsection, the Agricultural Adjustment Act of 1938 (52 Stat. 31) is hereby amended by adding the following subsection (17) at the end of section 301 (b) (16):

"(17) In estimating the current trend in consumption of any product covered by this Act, the Secretary shall take into account not only the previous trend in consumption heretofore in effect, but the prospective increase in buying power of industry and consumers and in their demand for various products in view of

their increased buying power which will be in effect as the result of the programs provided for under the Monopoly Control Act."

Accounts and Records

SEC. 13. (a) Every business in a participating industry, as defined by section 2 of this Act, and every licensee, and others subject to the provisions of this Act, shall make, keep, and preserve for such periods, such accounts, records of cost-accounting procedures, and of prices, correspondence, memoranda, papers, books, and other records, as the Commission may by rules and regulations prescribe as necessary or appropriate for purposes of the administration of this Act, including production, capacity of plant and extent utilized, employment, wages, hours, and other conditions of employment, prices, and marketing of products, together with receipts and expenditures with respect thereto, and all such other accounts, records, and related information as the Commission may deem essential to effectuate the purposes of this Act: *Provided, however*, That nothing in this Act shall relieve any business or licensee from keeping any accounts, records, or memoranda which it may be required to keep under the laws of any State or political subdivision thereof, or the District of Columbia or any Territory or possession of the United States, or under any other Act of Congress. The burden of proof to justify every accounting entry questioned by the Commission shall be on the person making, authorizing, or requiring such entry. The Commission shall at all times have access to and the right to inspect and examine all accounts, records, correspondence, memoranda, papers, books, and other records of participating industries and businesses therein, licensees, and others subject to the provisions of this Act.

(b) When in the judgment of the Commission, the disclosure of such information would be in the public interest or the interest of producers or consumers, the information contained in any statement, application, declaration, report, or other document filed with the Commission shall be available to the public, and copies thereof may be furnished to any person at such reasonable charge and under such reasonable limitations as the Commission may prescribe: *Provided, however*, That nothing in this Act shall be construed to require, or to authorize the Commission to require, the revealing of trade secrets or processes in any application, declaration, report, or document filed with the Commission under this Act.

(c) It shall be unlawful for any member, officer, or employee of the Commission to disclose to any person other than a member, officer, or employee of the Commission, or to use for personal benefit, any information contained in any application, declaration, report, or document filed with the Commission which is not made available to the public pursuant to paragraph (b) of this section.

Investigations

SEC. 14. (a) The Commission may require any business subject to any license, quotas, or orders, issued under this Act, to submit accurate reports, truthful and responsive answers to interrogatories. and to keep such accounts or systems of accounts, and to permit such access to all books and records within the control of such business (including books and records of any affiliate or subsidiary), as the Commission may deem necessary to effectuate the purposes of this Act.

(b) The Commission may make such investigations as it deems necessary to determine whether any business has violated or is about to violate any provision of this Act or of any license, agreement, or rule or regulation thereunder, or whether any license or agreement under this Act is effectuating the declared policy of this Act, and may require or permit any business to file with it a statement in writing, under oath or otherwise, as it shall determine, as to all the facts and circumstances concerning the matter to be investigated. The Commission is authorized, in its discretion, to publish information concerning any such violations or to investigate any facts, conditions, practices, or matters it may deem necessary or proper to aid in the enforcement of the provisions of this Act, in the prescribing, approval, issuance, or enforcement of any license, agreement, rule, or regulation thereunder, or in securing information to serve as a basis for recommending further legislation concerning the matters to which this Act relates.

(c) The Commission for the purpose of any such investigation of any other proceeding under this Act, and for the purpose of exercising their functions and powers under this Act, is empowered to administer oaths and affirmations,

subpena witnesses, compel their attendance, take evidence, and require the production of any books and records which they deem relevant or material to any proper inquiry. Such attendance of witnesses and the production of any such books and records may be required from any place in the United States, its Territories, or possessions, at any designated place of hearing.

(d) In case of contumacy by, or refusal to obey a subpena issued to any business, the Commission may invoke the aid of any court of the United States within the jurisdiction of which such investigation or proceeding is carried on, or where such person resides or carries on business, in requiring the attendance and testimony of witnesses and the production of books and records. Such court may issue an order requiring such person to appear before the Commission, there to produce books and records, if so ordered, or to give testimony touching the matter under investigation or in question, and any failure to obey such order of the court may be punished by such court as a contempt thereof. All processes in any such case may be served in the judicial district whereof such person is an inhabitant or wherever he may be found. Any person who shall, without just cause, fail or refuse to attend and testify or to answer any lawful inquiry or to produce books and records, in obedience of a process so issued, shall be guilty of a misdemeanor and, upon conviction, shall be subject to a fine of not more than $1,000 or imprisonment for a term of not more than one year, or both.

(e) No person shall be excused from appearing and testifying or from producing books and records, in obedience to a subpena, or in any cause or proceeding instituted by the Commission, or their duly designated representative, on the ground that the testimony or evidence, documentary or otherwise, required of him may tend to incriminate him or subject him to a penalty or forfeiture: *Provided, however*, That no individual shall be prosecuted or subject to any penalty or forfeiture for or on account of any transaction, matter, or thing concerning which he is compelled, after having claimed his privilege against self-incrimination, to testify or produce evidence documentary or otherwise, except that such individual so testifying shall not be exempt from prosecution and punishment for perjury in so testifying.

(f) The several departments, bureaus, and agencies of the Government, except as otherwise provided by law, upon request of the Commission or its duly designated representative, shall furnish all records, papers, and information in their possession relating to effectuating any of the provisions of this Act.

Suspension of Antitrust Laws

Sec. 15. While this Act is in effect, and for sixty days thereafter, any license, quota, order, or agreement formally approved by the Commission under the terms of this Act, during the period designated by the Commission, shall be exempt from the provisions of the antitrust laws of the United States.

Nonpartisan Administration

Sec. 16. This Act shall be administered entirely on a nonpartisan basis, and in the appointment of officials, the selection of employees, and in the promotion of any such officials or employees, no political test or qualification shall be permitted or given consideration, but all such appointments and promotions shall be given and made on the basis of merit and efficiency. If any presidential appointee herein provided for is found by the President of the United States to be guilty of a violation of this section he shall be removed from office by the President, and any appointee, or selection of officials or employees made by such appointee, who is found guilty of a violation of this section, shall be removed by the Commission.

Oath of Office

Sec. 17. (a) Each Commissioner, officer, and every other employee of the Commission appointed pursuant to the provisions of this Act before taking office shall take an oath of office swearing that he believes firmly in the principles enunciated by this Act and that he will execute faithfully all his duties in accordance therewith. In addition to removal from office for malfeasance or misfeasance of duties, every Presidential appointee appointed pursuant to this Act may be removed from office by the President whenever this oath of office is violated. Prior to all such removals the President shall provide such ap-

pointee with a public opportunity to be heard, to hear the charges preferred against him, and be afforded a reasonable opportunity to reply.

(b) In addition to removal from office for malfeasance or misfeasance of duties, all other officers and employees appointed under this Act may be removed from office by the Commission whenever their oath of office is violated. No removals of officers or employees shall be arbitrary or capricious but shall be based upon facts supported by substantial evidence.

(c) In changes of position or reappointment, only one oath of office shall be required.

Employees' Personnel Adjustment Board

Sec. 18. In matters other than violations of the oath of office there shall be established an arbitration board within the Commission, whose sole function shall be to serve as a board of appeals whenever an employee of the Commission desires to have his personnel matters reviewed. It shall be composed equally of officials designated by the Commission and employees. Said representatives of the employees shall be selected from an organization that represents a majority of all the employees, and if none such exists, then by representatives selected by a majority of all the employees. Hearings shall be open. Employees shall have an opportunity to hear the charges preferred against them and be afforded a reasonable opportunity for reply. The conclusions established by such board shall not be arbitrary or capricious. Appeal may be had to the Commission whose majority vote is final.

Practicing Before the Commission

Sec. 19. No Commissioner, officer, or any employee of the Commission who resigns or otherwise leaves the services of the Commission, shall practice, or otherwise engage in any activities in behalf of private clients before said Commission, directly or indirectly, for a period of five years from the date employment with the Commission was terminated. This proviso shall not apply to those who go from one branch of the Federal Government to another, nor to those who are employed by a State or any branch or political subdivision thereof.

Administrative Powers of Commission—Rules, Regulations, and Orders

Sec. 20. The Commission shall have power to perform any and all acts, and to prescribe, issue, make, amend, and rescind such orders, rules, and regulations as it may find necessary or appropriate to carry out the provisions of this Act. Among other things, such rules and regulations may define accounting, technical, and trade terms used in this Act; and may prescribe the form or forms of all statements, declarations, applications, and reports to be filed with the Commission, the information which they shall contain, and the time within which they shall be filed. Unless a different date is specified therein, rules and regulations of the Commission shall be effective thirty days after publication in the manner which the Commission shall prescribe. Orders of the Commission shall be effective on the date and in the manner which the Commission shall prescribe, unless otherwise provided in this Act. For the purposes of its rules and regulations, the Commission may classify persons and matters within its jurisdiction and prescribe different requirements for different classes of persons or matters. All rules and regulations of the Commission shall be filed with the secretary of the Commission and shall be kept open in convenient form for public inspection and examination during reasonable business hours.

Modification and Cancelation of Licenses and Orders

Sec. 21. After due notice and public hearing, the Commission may modify or cancel any order, rule, or regulation issued pursuant to this Act, and, in case of outbreak of a war affecting the United States, or in the case of drought, plague, or other calamity, the Commission may modify or cancel any license or quota under the Act, without the consent of the licensee or holder of the quota, provided the Commission finds such modifications or cancelations to be necessary to effectuate the purposes of this Act.

Laws Repealed and Not Repealed

Sec. 22. Nothing herein contained shall be construed to repeal any provision or part of the National Labor Relations Act of 1935, the Fair Labor Standards

Act of 1938, the Agricultural Adjustment Act of 1938, the Securities Act of 1933, the Securities and Exchange Act of 1934, the Public Utility Act of 1935, and the National Bituminous Coal Act of 1937. All other Acts, or sections thereof, or orders and regulations relating thereto, in conflict with the provisions of this Act, or orders and regulations thereunder, are hereby repealed.

WORKERS' REHABILITATION

SEC. 23. (a) There is hereby established a Workers' Rehabilitation Board (hereafter called the "Board"), composed of five representatives, one each being designated by the Works Progress Administration (or its successor agency), the Federal Employment Service, and the Department of Labor, the Social Security Board, and the Commission. The Board shall select its own chairman, and in addition to services supplied by said agencies, the Commission shall provide the Board with such an administrative staff as is, in the judgment of the Commission, reasonably necessary.

(b) It shall be the duty of the Board, through arrangement with its constituent agencies and State relief agencies, or directly; (1) to provide for income payments to workers displaced by technological improvement or increase of efficiency in industries operating under any expansion program, at a rate equal to at least 60 per centum of the earnings received by said workers prior to their displacement. Expenditure of relief funds, to provide supplementary payments to bring unemployment compensation payments to said workers up to the above specified earnings, is hereby authorized; (2) to survey the prospective needs for workers under subsequent expansion programs, and to determine the best capacities and potentialities of displaced workers on its rolls for retraining in such new occupations; (3) to retrain workers employed by it for the highest occupations for which they are suited in industries where they are most likely to find employment in future expansion programs, and to aid them in finding such employment when retrained; (4) to cooperate with the Commission and industry councils and others in determining the prospective needs for workers in each occupation in each industry and to aid in keeping the displacement of workers to a minimum and the retraining and replacement of workers as rapid and effective as possible; (5) to assist in the establishment of an occupational outlook service in the Department of Labor, and to do all the related things necessary to achieve the purposes of this section.

(c) The Board shall submit to Congress an annual report, summarizing its operations and its recommendations.

INSURANCE OF HOUSING CONSTRUCTION

SEC. 24. (a) In the event the Commission shall determine that an expansion program is necessary for the residential-construction industry, the program formulated for such industry, and the undertakings of the Production Insurance Corporation with respect thereto shall be in accordance with the following conditions:

(b) In preparing the expansion program for such industry, pursuant to the provisions of section 5, the Commission, in collaboration with the Industrial Council, shall—

(1) consider the material and labor requirements for building construction involved in the expansion programs formulated for other basic industries, and in the construction programs of Federal, State, and local agencies for roads and other public projects, including slum clearance and low-rent housing undertakings;

(2) consult with and adopt, so far as practicable, the findings and recommendations of Federal, State, and local administrative planning and research agencies as to local residential housing needs and the share of the total volume of residential construction to be undertaken under such expansion program which should be distributed among the respective States and the geographical subdivisions thereof on the basis of such housing needs; and

(3) apportion, with respect to each locality, the quantity of residential construction to be allotted, on the basis of local requirements, between medium-cost housing construction and low-cost housing construction as hereinafter defined.

(c) As used in this section, the term "medium-cost housing" shall include all private residential construction costing not less than $4,000 nor in excess of

$10,000 per dwelling unit which is constructed for sale on the terms set forth in paragraph (d) of this section, and the term "low-cost housing" shall include all private residential construction costing not in excess of $5,000 per dwelling unit which is constructed for sale or rent on the terms set forth in paragraph (e) of this section. Out of the total allotments for such construction in each locality quotas shall be determined for each individual business in accordance with the provisions of section 7 (b) of this Act.

(d) The insurance contract entered into by the Corporation with each business for the construction of medium-cost housing shall provide—

(1) that the business shall agree not to dispose of any dwelling at a price in excess of that stipulated in the insurance contract, which shall in no event exceed the actual cost thereof by more than 10 per centum;

(2) that any dwelling constructed by such business, within its quota, and not disposed of by it within one year from the date construction thereof is completed, shall be purchased by the Corporation at a price equal to 95 per centum of $6,000 of the appraised value of the dwelling and 90 per centum of such value in excess of $6,000 and not in excess of $10,000: *Provided*, That the price paid by the Corporation shall in no event exceed the total actual cost of such dwelling.

(e) The insurance contract entered into by the Corporation with each business for the construction of low-cost housing shall provide—

(1) The business shall agree—

(A) to invest a total of at least $100,000 and shall undertake to construct at least two hundred dwelling units per year;

(B) to submit to the Corporation detailed plans and specifications and contracts or commitments covering labor and material costs assuring that the costs per dwelling unit will not exceed $5,000 per unit and that full advantage has been taken of all possible economies through large scale construction undertakings, including, where practicable, annual wage agreements covering the cost of labor; and

(C) not to dispose of any dwellings at a price in excess of that agreed upon in the insurance contract which shall in no event exceed the actual cost thereof by more than 5 per centum, nor to rent any such dwellings at rentals in excess of those agreed upon in the insurance contract, which shall in no event exceed, after deductions approved by the Production Insurance Corporation for management, depreciation and like charges, a net return of 5 per centum per annum, or 5½ per centum per annum in the case of a project constructed for rental on public-owned land, on the actual investment of the business: *Provided*, That, for the purpose of determining such investment, no credit shall be given on account of any expenditures for land unless acquired through a bona fide purchase within not more than one year prior to the date of the insurance contract. In the event that the cost of construction shall be less than that stipulated in the insurance contract, the business shall be entitled to include 10 per centum of any such savings in the amount of its investment for the purposes of calculating the maximum sales prices and rental charges provided above.

(2) In consideration of the above agreements, the Corporation shall agree with the business or its approved assignee (hereinafter called the "business")—

(A) that any dwellings constructed by such business for sale, within its quota, and not disposed of by it within one year from the date construction is completed, shall be purchased by the Corporation at a price equal to the actual cost thereof determined in accordance with (1) (C) above;

(B) That, as to any dwellings constructed by such business for rental, within its quota, the Corporation will pay annually, for a period not to exceed thirty years, such amounts as may be necessary to bring the return to the business up to a net revenue of not in excess of 3 per centum per annum, or 3½ per centum per annum in the case of a project constructed for rental on public-owned land, on the amount of capital actually invested by the business, less depreciation, which investment shall be computed subject to the limitations specified in subdivision (C) of subparagraph (1) above.

(f) If, as to any locality, the contracts entered into with the Corporation shall be insufficient to meet the residential housing needs of the locality, as determined pursuant to paragraph (b) of this section, the Commission shall be authorized to undertake such construction either by force account or by contract. The Reconstruction Finance Corporation shall make available to the Commission such

sums as the Commission shall determine to be necessary for such purposes. Any housing constructed by the Commission pursuant to this paragraph shall be entitled to the benefits and shall be subject to the restrictions hereinabove provided in paragraphs (d) and (e).

Separability

Sec. 25. If any provision of this Act, except the provisions of section 5, or the application thereof to any person or circumstances, is held invalid, the remainder of the Act, and the application of such provisions to other persons or circumstances, shall not be affected thereby.

Effective Date

Sec. 26. This Act shall take effect on approval by the President of the United States.

PART III

EMPLOYMENT AND ECONOMIC PROGRESS

by

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EMPLOYMENT AND ECONOMIC PROGRESS

The subject assigned me is a large and difficult one. Many books have been written about it. In the space allowed me I can only hit the high spots.

We all recognize that unemployment and its solution is our transcendent domestic problem. A Trojan horse within our gates, it owes no allegiance to a foreign power. The persistence of widespread idleness in all walks of life is a serious threat to our economic, social, and political structure. Upon its successful solution depends not only the reduction of relief expenditures and the balancing of public budgets but also the welfare of a third of our fellow-citizens, the preservation of democratic institutions, and the character of American civilization.

In this talk I want to deal with what seem to me to be the six main aspects of our unemployment problem: Its extent, its causes, its consequences, the lessons of the last decade, proposed remedies, and finally the relation of employment to economic progress.

Several months ago the Fortune magazine held one of its round tables on the question: How can the United States achieve full employment? Underlying their discussion were four assumptions with which I also begin. They are—

1. That the democratic system thrives only by the creation of individual opportunity.
2. That unemployment is a denial of opportunity.
3. That the greatest domestic problem with which the United States is now confronted is the problem of unemployment.
4. That there is no conflict between employer and employee, capital and labor, farm and city, that cannot be solved by peaceful democratic means.

The Extent of Unemployment.

Even during the piping days of prosperity there has always been more or less unemployment in the United States. In 1918, a war year, for example, 5½ percent of the workers in manufacturing, transportation, building trades, and mining were out of jobs; 23 percent of them were out of work in 1921 during the first post-war depression. In 1929, just before the crash, the average volume of unemployment was 1.8 million. In 1933, our worst year, 25 percent of the labor force was unemployed. This percentage dropped to 12 in 1937 when 6.8 million were out of work, and rose to 17 percent in 1939 when the average volume of unemployment was 9.8 million.

Corrington Gill, author of Wasted Manpower, estimated last September that the combined total of the unemployed and their dependents was greater than the population of all the New England States plus New York and New Jersey.

While estimates vary from year to year, all the estimates agree on one central fact: The number of people who are out of work today is some 8 to 9 million greater than in 1929. There has been an increase

since 1929 of 6.6 million in the total labor supply due to population growth and the change in its age composition.

Last March Miss Dorothy Thompson created a controversy in the press by contending that only 2,000,000 were out of work. She attempted to conjure away the existence of unemployment by leaving out of her calculations the W. P. A. workers and by underestimating the increase in the labor force. She failed to take account of the fact that there are relatively more people of working age now than there were in 1929 because of the change in the age composition of the population. Estimating unemployment is a hazardous occupation for laymen.

Last April the Brookings Institution published a book which contains some interesting figures on changes in employment in major groups of industries from 1923 to 1937. During this period, according to the Brookings study, man-hours of employment declined in manufacturing, mining, and railroads, and increased in electric light and power. Meanwhile, the number of wage earners declined in mining and railroads, and increased in manufacturing and electric light and power.

In a recent pamphlet published by the W. P. A. some important facts about unemployment are revealed. Between a fifth and a fourth of the total labor supply is unemployed. The young worker and the old worker are the hardest hit by unemployment. Only about one-fourth of the jobless have W. P. A. jobs; another fourth are temporarily inactive so far as the labor market is concerned; the remaining one-half are active job seekers. W. P. A. workers, consisting principally of family heads, are older and have been without jobs longer than unemployed workers not on W. P. A. Temporary illness or disability keeps a substantial number of workers out of the labor market at all times, thereby introducing a special problem of unemployment that is frequently overlooked. Almost half of all employed persons, according to this study, are working more than the 44-hour limit set by the Wages and Hours Act for industries covered by the law. The average length of time employed workers have kept their present jobs is well over a year; but the jobs of from 7 to 10 percent of the workers have lasted less than a month; and 11 to 14 percent are working less than 30 hours a week. There is thus a problem of underemployment as well as of unemployment.

Types and Causes of Unemployment.

Even in prosperous times, then, experience shows that there is an irreducible minimum or "hard core" of unemployment. The volume of employment rises and falls above this minimum under the impact of changes in economic activity. Students of the problem have identified five different types or causes of unemployment produced by these changes.

(1) *Frictional unemployment.*—This type is due to the imperfect meshing of the parts of our economic machine. By itself this type raises no grave social problems, as the period of unemployment is apt to be short. Droughts, break-downs of machinery, accidents, shortages, bottle necks, and similar maladjustments are examples of conditions that give rise to frictional unemployment.

(2) *Seasonal unemployment.*—Industries dependent on the seasons, like fruit picking and canning, cannot offer steady employment.

Though some seasonal workers are employed at high wage rates, the vast majority receive far too little to carry them over periods of unemployment. Those of you who have read Grapes of Wrath are familiar with this type of joblessness.

(3) *Cyclical unemployment.*—The ebb and flow of the business cycle causes wide fluctuations in the volume of unemployment, but every depression leaves behind it a residue of victims of human erosion who have become unemployable.

(4) *Structural, including technological unemployment.*—This type is caused by basic changes in the structure of our economy and by the onward sweep of the machine process. The disappearance of the geographic frontier, the decline of competition, the spread of price administration, the growth of monopoly, and the displacement of men by machines are some of the structural changes that are taking place in the American economy. Although many claim that new machinery creates more jobs than it takes away, it is indisputable that production has expanded faster than employment. A man thrown out of work by technological change often loses his occupation as well as his job. Stranded communities like the coal and steel towns in western Pennsylvania are also the result of this sort of change. Current developments in technology are more apt to improve existing equipment and to perfect methods of operation than to expand production facilities which would create new jobs.

(5) *Secular unemployment.*—This is the chronic type of mass unemployment that results from the failure of new investment and the prolonged stagnation of the capital markets. In the past, a rapidly expanding economy offered great investment opportunities. Since 1930, however, because the volume of real investment has not been large enough to offset the volume of savings, the national income has been reduced and unemployment has resulted. The 1935–37 recovery was due primarily to a rise in consumption stimulated by public spending; investment followed consumption.

In addition to and independent of these five main types or causes of unemployment in the United States, there are a number of factors in a dynamic economy that also affect the unemployment problem. Among these changes are the increase in the working population which amounts to some 600,000 annually; managerial improvements; the development of new products and processes, like Nylon stockings, Birdseye frozen foods, and the Dy-Dee Wash; changes in consumer tastes; tariffs and other legislation; the loss of foreign markets for our farm surplus after the first World War and the acquisition of new markets in Latin America during the present conflict; the discovery of new resources and the depletion of old; the erosion of soil, as in the Dust Bowl region; changes in transportation reducing railway traffic and employment; the migration of industry, like the movement of textile factories from New England to the South; and the migration of workers from farms to cities and from the Great Plains to the west coast. All these shifts and maladjustments influence the employment problem in complicated ways.

Thus we see that mass unemployment in the United States is not a local but a Nation-wide phenomenon, and that it is due not to personal laziness or shiftlessness but to economic and social factors and changes over which the individual and industry have little or no

control. These contributing factors are numerous and the share of each in the total cannot be accurately measured. But it is correct to say, I believe, that the waste of manpower in this country today is mainly due to the decline in capital investment, to technological displacement, and to the failure of output to expand with our capacity to produce.

The decline in investment is attributed in turn to (1) the increased efficiency of capital as a result of improved methods that tend to get more output for the same dollar of capital invested; (2) the invention of capital saving devices such as multiplex telegraphy which enable cheaper machines to do more work; and (3) the excess of productive capacity over effective demand. If an industry is operating at only 60 percent of its capacity, there is little incentive to install new plant and equipment.

Meanwhile, the mechanization of industry, which is a main cause of at least temporary unemployment, is proceeding apace. In 1933, 43 men produced the same volume of goods that required 118 men in 1899. Prior to 1914 the benefits of technology were on the whole passed on to consumers and farmers in the form of lower prices. As a result, 112 men were hired for every 100 men displaced. But after the World War a change took place. In the period from 1923 to 1929 only 91 new men were employed for each 100 displaced. And this tendency continued without diminution during the 1930's.

The Consequences of Unemployment.

I need not describe to you the appalling consequences of this continuing unemployment, for they have been visible on all sides. In all our communities we have seen much individual suffering, much social and political unrest.

It has been estimated that over $130,000,000,000, or twice the national income of 1938, has been lost through unemployment since 1929. Businessmen, farmers, and property owners cannot be prosperous when a large segment of the consuming public has no money to buy their products and services. According to the Brookings study referred to earlier, the effect of unemployment, together with the shortening of the work week, reduced the aggregate dollar income of all workers attached to the industries mentioned by more than 13 percent.

It is possible to estimate the loss in dollars through unemployment, but in human terms the loss is incalculable. Illness and disability growing out of undernourishment, worry, and poor housing take their toll of the jobless. The resultant burden on hospital and welfare agencies, as well as the cost of policing the crimes that are bred by destitution, must be met by society as a whole. History teaches us that sooner or later a neglected mass of unemployed, constituting between one-eighth and one-fourth of the population, will be willing to trade their civil liberties for anything that looks like security. Those of you who have visited the ghost towns in the coal-mining areas of this State, or have seen the human effects of unemployment in your own communities, are quite familiar with the seriousness of this problem.

Lessons of the Last Decade.

It seems to me that the last 10 years have taught us certain lessons about the unemployment problem. We have learned (1) that unemployment is a permanent and not a temporary problem which must be

dealt with on a long-range basis instead of by a mere succession of emergency measures; (2) that a problem that has grown to such proportions in 10 years is not solving itself automatically; (3) that our present efforts to meet the problem are expensive; (4) that our present methods of dealing with the problem are ineffective; (5) that the welfare of the entire body politic will become jeopardized unless a better solution is found; and (6) that reemployment rather than relief must be the goal.

I am sure that few of you will disagree with these conclusions from the experience of the last 10 years. Any problem that persists for a decade at such a magnitude has plainly ceased to be a passing emergency. We have spent billions of dollars on unemployment relief. But despite these huge expenditures, the unemployed are still with us, while the $54 a month received by the average family on direct relief does not enable them to maintain an American standard of living. Ten years of widespread unemployment and the feeling of insecurity which permeates all groups have caused certain dangerous tendencies to manifest themselves among old and young. Age grows preoccupied with unworkable plans for pensions like the ham and eggs scheme in California; youth turns to ill-conceived plans for the complete reorganization of society. It is just as senseless for us to denounce youth for losing its economic balance as it is to denounce age for turning to impractical pension plans. If society cannot give employment to youth, it is natural that youth should endeavor to set up a system of society which can give it employment. Under existing conditions youth becomes fertile soil for the planting of seeds of revolutionary fascism or communism. The history of the part played by "youth" movements in the growth of totalitarian states should convince all of us that we must not permit an American "fifth column" to recruit its members from disillusioned young people out of work.

The past 10 years have further demonstrated that private enterprise alone and unaided cannot assume responsibility for capacity operation and full employment of our productive resources. Private enterprise has long been aided and implemented by governments in various ways. By itself, it cannot maintain abundant and continuous production.

There is a lesson for us, I believe, in the experience of Germany since 1933. In that country the rise of fascism to power, as Max Lerner has pointed out, followed upon economic collapse, political paralysis, and psychological hysteria. Applying these tests to the American scene, we find our own country in a condition of economic stagnation relieved temporarily by a war boom in certain industries, and political stalemate, but with a better psychological climate in the face of foreign aggression. If we are to convert stagnation into expansion and stalemate into united action, and achieve a genuine democracy in America, we must conquer our Public Enemy No. 1—unemployment.

Unsuccessful Expedients.

Coming now to the question of remedies, we leave the field of facts and figures and enter the debatable ground of opinion. Let us approach this difficult terrain with open and inquiring minds.

There are three methods of solving the unemployment problem that I think we should reject. The first is an expansion of the dole system. This is no answer to the problem because it does not create jobs, but leaves the jobless outside the economic system, destroys their desire to work and debases their levels of living.

The second method is to draft the unemployed into the processes of war. This is the method of the totalitarian states which are said to have eliminated unemployment by putting the idle in the army and in concentration camps. Making cannon fodder out of the jobless only disguises the unemployment problem which breaks out anew in the inevitable post-war depression, as we saw in 1921. Our new national defense program will provide work for only a small percentage of all the unemployed.

The third method is that of communism. This method has been tried by Soviet Russia with its authoritarian controls, its appalling purges, and its dictatorial deprivation of civil liberties. I am sure you will agree with me that this is not the American way of solving the problem.

There are some who believe that private enterprise can absorb a majority of the country's unemployed. Between 1933 and 1939 it is estimated that American industry reemployed about 8.5 million workers. This was a real achievement, one that is frequently forgotten in the heated debate about the responsibilities of business. It shows that private industry can reemploy men and create new jobs over a period of years. But it is almost equally certain that private enterprise cannot employ the vast majority of the idle workers within the next year or two. Only once in American history have we put as many as 3,000,000 people to work within a period of 1 year. That was from 1933 to 1934. It would take 6 years for private enterprise to absorb all those out of work today at the rate of recovery we experienced from 1933 to 1937. Private industry alone cannot solve the problem.

Nor is there much real promise of solving the problem in the trivial expedients offered by some politicians and economists, such as minor changes in taxation and in the Labor Relations Act, the revival of the gold standard, the mere cessation of "interferences" with business, or the decentralization of relief administration. These superficial changes would not reach the root causes of wasted manpower which, as we have seen, lie deeper.

Types of Action to Be Excluded.

In our quest for an American answer to the challenge of unemployment, there are at least four types of action that I think we must leave out of our calculations. (1) Revolutionary changes, because they are undemocratic in method and because modern history shows that violent revolutions do not take place in industrial countries, but only in peasant nations. (2) Wholesale socialization of basic industries, the Socialist solution, because this would precipitate a struggle in which democracy would probably be destroyed and fascism would come to power, as it did in Germany. (3) Crackpot panaceas, like ham and eggs or $30 every Thursday, because they are economically unsound and politically unacceptable, judging by the defeat of this scheme at the California polls last year. (4) A return to laissez faire, because under existing world conditions this is a lost cause, however fondly we may hope for its resurrection.

PROPOSED REMEDIES

After we have dismissed the schemes that seem unsuccessful or undemocratic or impractical in the present climate of American opinion, what other remedies remain? Scores of proposals have been put forth in recent years to solve the unemployment problem. I have made a hobby of collecting and classifying them. Some are economically unsound or administratively unworkable. Others are beyond the realm of practical politics or incompatible with democratic principles and American traditions. I could give you a list of these proposed remedies if time allowed, but I am afraid it would only confuse you. There are so many of them. In order to clarify and simplify the picture, I have classified all these proposals into seven groups of measures.

The first group consists of measures on the financial level. Under this head come four types of action. (1) Monetary and credit policies designed to provide the right amount of money, to control its supply and distribution, and increase its velocity. Plans to improve credit and capital facilities for small business, like Mr. Berle's capital credit banking plan, illustrate this kind of action. (2) Tax reforms, such as higher taxes on incomes, inheritances, and land values; lower taxes on consumption; the taxation of idle savings and undistributed corporate profits; and the repeal of tax deterrents. (3) Fiscal policies, such as pump priming, deficit financing, balancing the Federal Budget over the business cycle instead of each fiscal year, and segregating capital expenditures in a capital budget. (4) Measures to increase buying power such as public works and relief expenditures, more liberal old age pensions and other forms of social insurance, wage subsidies, and properly timed public purchases. All these are examples of proposals on the financial level designed to increase, stabilize, and regularize employment, directly or indirectly.

A second approach to the unemployment problem calls for a group of measures on the investment level. The purpose of this type of proposal is to balance savings and new capital investment. When these two factors are out of balance, you either have over-saving or under-investment. There are proposals to prevent over-saving by taxing idle money to reduce the percentage of the national income that we save and increase the proportion consumed, as England has done since 1913. And there are proposals to prevent under-investment either by stimulating new private investments in plant and equipment or by expanding public investments in productive public works and social services, like low-cost housing, schools, hospitals, parks, and playgrounds.

The problem of achieving full employment is said to be the problem of securing sufficient outlets for savings. During the early years of our history, we always had more opportunities for investment than we had funds to invest. Today our savings amount to $69,000,000,000 and there is no free outlet for them. Our great corporations are producing within themselves sufficient capital to supply their future needs without recourse to the savings of individuals, while small and intermediate businesses are unable to get the capital they need from private sources. If private outlets are lacking, these funds must be consumed or absorbed by public investments. Some believe that private savings will come out of hiding if encouraged to

venture forth by public subsidies or tax concessions or by the removal of deterrents to business confidence. Others argue that we should channel our surplus savings into useful public works and into equalizing social services between the different regions of the country so as to raise the levels of education, health, and economic well-being in those backward rural areas from which our population is being replenished. Such public investments would be financed either by borrowing or by a hoarding tax on idle money or by public credit.

One interesting suggestion for stimulating new private capital investment takes the view that, as industries leave the adolescent stage and become mature, they seek security and become less venturesome, less willing to assume the risks of youth. It is suggested, in such cases, that Uncle Sam, perhaps through the Bureau of Standards, might investigate the commercial feasibility of new products and processes that have been invented or have appeared on the technological horizon and himself assume the risks of their development by underwriting their production or application by private industry for an initial period. Prices would be set at levels to assure a market and a profit to the industry and Uncle Sam would assume any losses. It is also suggested that the same inducement might be used to stimulate price reductions on existing goods and services like electric power. Advocates of this idea of government subsidies believe it is preferable to public competition with or regulation of business. It emphasizes the psychology of cooperation rather than conflict. It aims to purchase better production and employment policies by public subsidies and guaranties to private industry.

A third type of attack on unemployment consists of measures on the production level. Three types of proposals are being advanced on this level. One aims to reduce unemployment to some extent by the regularization of business. This means the adoption of measures by business to reduce the ups and downs of unemployment from one month to another. This would iron out some of the seasonal changes which account for considerable joblessness. Many of our present systems of State unemployment compensation are based in part upon the idea of stimulating regularity. Under such systems, the more a businessman can stabilize his operations, the more steady will be the number of persons on his pay roll, and therefore the less will be his contributions for unemployment compensation. The change in the date of the annual automobile show was an attempt to regularize production in that industry.

A second method under this head aims to increase employment by developing new manufacturing industries. The advance of science, invention, and technology is constantly creating new industries and services which are sources of new opportunities for the employment of men and women. Eighteen new manufacturing industries which have come into existence since 1879 have absorbed almost one-seventh of all the labor employed in manufacturing since 1929. Among them are electrical machinery, apparatus, and supplies, motor vehicles, rubber tires, gasoline, rayon, manufactured ice, typewriters, mechanical refrigerators, cash registers and adding machines, aircraft, phonographs, and motion-picture apparatus.

The third measure on this level proposes a concerted program of expanded production in the key industries to achieve full production and employment and increase buying power. This type of action

has been urged and programmed by Mordecai Ezekiel in his two books—$2,500 a Year and Jobs For All. It has been endorsed by businessmen, by the American Federation of Labor, by Mary Beard, a leading American woman, and many others. And it has been embodied in legislation introduced in the current Congress by Representative Voorhis, of California, and Representative Keller, of Illinois. This measure aims to create new wealth and jobs in the interstate monopolistic industries through their voluntary and planned cooperation as an alternative to Government regulation or ownership of the basic industries of the country. The American Federation of Labor estimated last March that 2,700,000 new jobs would be created by the adoption of this industrial expansion program. Mary Beard writes that she believes women should seek inclusion of a plank in the 1940 party platforms pledging the President to call a White House conference after the November election composed of representatives of government, agriculture, industry, labor, and consumers to frame such an industrial expansion program. And the A. F. of L has made a similar suggestion.

A fourth set of weapons in the war against unemployment consists of measures on the labor level. These include (1) reorganization of the employment services to reduce frictional and seasonal unemployment and the duration of idleness; (2) vocational retraining programs for workers whose skills have been made obsolete by new machines or by migration of industry; (3) payment of wage subsidies to all who employ labor instead of machines; (4) giving every worker a property right in a job in an industry of his own choosing; and (5) further shortening of the hours of labor. Peace between the C. I. O. and the A. F. of L. should also help in the fight against their common enemy.

The fifth type of action embraces a variety of measures on the anti-monopoly level. Advocates of this school of thought favor the adoption of effective measures to protect small-scale competitive enterprise and to widen the area of genuine free competition—the free zone where the market mechanism operates. They would restore competition and flexible prices by more vigorous enforcement of the antitrust laws in order to eliminate restrictive labor and marketing practices and reduce costs, for example, in the building industry where the Department of Justice has launched a series of suits against labor unions, contractors, and the suppliers of building materials. They would repeal profiteering tariffs and end the "patent racket." They would revise governmental subsidies to reward good competitive behavior and penalize bad monopolistic practices. They would extend public competition as a yardstick in the utility and other fields and encourage consumers' cooperation as a method of sweetening competition. They would try to stimulate better price policies on the part of business, labor, and agriculture. They would employ a variety of strategic or environmental controls designed to employ competition as a tool to keep the economic system working as efficiently and fully as possible. In short, this school of thought would reshape and release competition from restraining practices in the hope of making the economic machine work more or less automatically instead of trying to operate it, as it were, by hand.

Then there is a sixth set of measures on the consumption level. These aim to increase our capacity to consume by maintaining the

open door at home, developing our domestic markets, and cultivating our own gardens. Advocates of this approach led by men like Charles Beard, Stuart Chase, and Jerome Frank, argue that there are greater potential markets for the output of our farms and factories here at home than abroad. They are firmly convinced that the solution of our unemployment problem is to be found in opening up new channels of consumption and in higher levels of living at home rather than in the vain quest for permanent outlets for our putative surpluses in foreign sales aided and abetted either by sea power, or export subsidies, or imperialist adventures. Under this head also come measures like the food-stamp plan being tried in several cities, the efforts of the Brookings Institution to persuade businessmen to pass the benefits of technological progress along to consumers in the form of lower prices and to workers in the form of higher wages, as well as proposals for bigger pensions and for the extension of producers' and consumers' cooperation. Agricultural experts told the monopoly committee in Washington a few weeks ago that 1,500,000 unemployed farmers displaced by power machinery cannot find work until entirely new channels of consumption are opened. Tractors, combines, harvesters, and mechanical pickers are rapidly changing the whole pattern of life and labor in American agriculture.

Finally, the attack on wasted man-power includes a number of measures on the management level. Among them, the greatest need, I think, is to strengthen the planning boards at all the levels of government—city, county, State, and region which are in a position to function as coordinating and integrating agencies for combating the menace of unemployment as well as for planning the conservation, development, and use of our physical and human resources. The National Resources Planning Board in Washington, whose main function under act of Congress is the stabilization of employment, should be given a permanent place in the Federal structure. To mention just one other proposal under this head, Mr. Owen D. Young and the American Youth Commission have urged the establishment of an effective public agency to provide employment for young people between the ages of 16 and 24.

Conclusion.

What may we conclude from this sketchy review of our unemployment problem—its extent and causes, its consequences and suggested remedies?

We have seen that the problem is serious in size and of such continuing duration as to be considered permanent in character. We have seen that there are five main types of unemployment and that the causes are multiple. We have noted that the most serious types of idleness, from the standpoint of number and duration, are those resulting from cyclical fluctuations, machine displacement, and the decline of investment. We have observed the human, and economic, and social effects of wasted man-power and have outlined the seven main types of action designed to provide jobs for all.

Most observers are agreed that there is no simple, single solution of this problem, that it will not be won by a blitzkrieg, but that it will require a many-sided attack in a long, hard campaign on many different fronts. We have seen and probably been bewildered by

the many varied weapons in the arsenal of government and business available for a joint attack on the thorny problem of full employment. Which of these devices to use, and when and where, are questions of high significance in the strategy of enduring recovery. Meanwhile, the repercussions of the European war upon our economy, and the new defense program complicate and confuse the whole problem in ways difficult to calculate.

Any one of the proposals I have mentioned, if tried, might make some contribution to the reduction of joblessness. We will never know how well they might work until we have tried them. The biochemist in his laboratory conducts hundreds of experiments before he finds a specific cure for some disease. But to find a specific cure for unemployment may require more experimentation than society is willing to sanction. Not all the suggested plans are equally promising. Perhaps few of them will ever be tried, or at least not soon enough to help in the present situation.

> Full many a plan is born to blush untried
> And waste its potence on the desert air.

The American people have not been in the mood since 1938 to try new schemes. People grow weary of change and reform and would rather put up with the evils they have than fly to others they know not of. But the terrifying developments abroad may work sudden changes in American psychology.

Out of all the conceivable recipes in the cook-book of recovery, I have least confidence in industrial self-discipline or further extension of negative public regulation. I have greatest confidence in positive action designed to stimulate and supplement private enterprise. Specifically, I think the most promising steps toward promoting jobs for all at the present time are a joint public-works, industrial expansion program. Of all the measures I have mentioned the most promising method of getting jobs for all the able-bodied unemployed, in my judgment and in the present circumstances, is for the Federal Government to launch a large-scale program of public investments in productive public works and useful social services, and to couple this with a concerted program of industrial expansion in the basic industries along the lines described in Ezekiel's Jobs for All.

Growing recognition of the permanent character of the relief problem in a contracting economy is leading to a consensus of opinion in favor of a permanent long-range program of useful public works and activities. The members of the Fortune Round Table on Unemployment, to which I referred at the beginning and which included several conservative leaders of American business, unanimously agreed (1) that the social gains of the past few years must be kept; (2) that Government expenditure should make provision for the unemployed even if this involves deficit financing; and (3) that the Government should invest its money so as to increase employment opportunities rather than merely spend it to increase buying power.

The kinds of work to be undertaken consist primarily of those which are vital to national welfare and defense, but are not being adequately taken care of by private enterprise and do not fit its normal pattern. The most important of these are low-rent housing, shipbuilding, airplane plants, rural electrification, flood control, high-

way development, reforestation, soil conservation, health, educational, and recreational facilities, scientific research, and similar activities contributing to the welfare of the country as a whole—fields which private business has not found it profitable to enter. Any program which produces socially useful assets or creates utilities or conserves human and material resources or yields income makes for economic progress.

Of all the proposals suggested for a solution of wasted man-power, I place greatest hope in this long-range public works and investment program coupled with measures to stimulate new private investment and a program of general industrial expansion. These programs supplement rather than jeopardize each other, and each is directed to the same objective of increasing the national income and promoting fuller use of the nation's material and human resources. They should bear the brunt of the main attack on unemployment.

In addition I would endorse and carry on the following supplementary steps:

1. An integrated system of employment offices which would be the source of information on available employment and labor.
2. A program of job training for youth and vocational guidance for displaced workers.
3. The adoption by business of measures to regularize employment from month to month.
4. A program of loans and subsidies to key industries.
5. The measures proposed to restore flexible prices wherever possible and eliminate monopoly.
6. Liberalization of the old-age benefit system.
7. Continuation of the N. Y. A. and C. C. C. youth programs on a permanent basis.
8. Expansion of the existing unemployment compensation systems.
9. Extension of rehabilitation of rural areas through the activities of the Farm Security Administration.

The potential of plenty for all in the United States has become a commonplace. Almost everyone knows that for the first time in human history we have here the natural resources, the plant and equipment, the labor force, and the industrial arts to create an "America Unlimited" with an average annual family income of from $2,500 to $4,400. Until now the obstacles to this achievement have been man-made institutions and habits of thought, and ignorance of how to organize our resources so as to attain an economy of abundance.

In the light of recent scientific research and social invention, we can no longer plead ignorance of methods of maximizing the national income. A wide variety of techniques for releasing the potential plenty of our economic system have been devised during the past decade. We have been bewildered to know which of these remedies to employ and in what combination. As a people we are substantially agreed on the ends to be sought: Peace, plenty, and freedom. It only remains to attain agreement on the means to be applied.

After 10 years of searching and fumbling, the best thought of experts on this problem is beginning to focus on the few concrete remedies I have recommended. They recognize that unemployment and most of our other economic and social ills will disappear in pro-

portion as we are able to increase the national income and distribute it more equitably.` We measure our national income in terms of the annual output of goods and services by private and public enterprise. It is estimated that a national income of $88,000,000,000 in 1936 dollars would make a fuller use of our manpower and eliminate unemployment. It is also estimated that with our present resources we can produce an annual income double that of last year when it amounted to about $68.5 billions. The acid test of economic progress is an economy in which production, employment, and income are steadily expanding.

The chief obstacles to prompt adoption of an adequate reemployment program are political, not economic. In the present climate of congressional and public opinion, it seems unlikely that any fresh or more vigorous attack will be made upon unemployment, aside from the rearmament program, until after the November elections, if then. Solution of the problem is also handicapped by lack of understanding of it, by the influence of pressure groups which tend to take a sectional view and resort to restrictive palliatives like resale price maintenance, the 30-hour week, and crop limitation, and by the absence of fully developed programs of action. Further obstacles are to be found in the resistance of autocratic economic power to change, in monopolistic practices, in vested rights in the status quo. These obstacles can only be overcome peaceably by public education and by democratic planning and experimentation.

Thus you will see that the art of economics has no certain cure of this social malady. But efforts to solve it must not be postponed until economic science has been perfected. On the contrary, economic problems must be attacked as they arise with as much insight as men possess. Just as every industrial invention passes through a long period of trial and adjustment before it wins general acceptance, so must social engineering proceed by trial and error and experimentation. Social planning cannot skip this long process of gradual perfecting before it passes into successful operation, nor can it quickly change the ingrained habits of the American people. "The social inventions that have paralleled the technological progress of recent times," says Wesley Mitchell—"for example, the joint stock company with limited liability, trade unions, progressive taxation, central banking, social insurance, installment buying, chain stores—have been gradual developments, and few would claim that any one of them is thoroughly satisfactory in its latest form."

In a recent address in Los Angeles, Roy Bessey summed up our situation as follows: "If we are to go ahead in America—if we are to add constantly to our national income, improving and broadening our standards of living, and diminishing our unemployment of capital and labor—we must have plans for capital outlay in public and quasi-public works as well as in productive industry. Such expansion in industry alone is not possible for obvious reasons. The growth of industry is dependent upon the parallel development of public works, utilities, services. The full employment of resources—men, science, technology, money, plant, machinery, materials—is not possible without construction and reconstruction of public works and quasi-public works."

Lewis Mumford pointed out in a recent issue of the Survey Graphic that "the United States is now entering a period of economic sta-

bility. The era of physical growth lies behind us, as it lies behind any adult organism. We are now about to enter a period of maturity, where the problem is to maintain a dynamic equilibrium, as in the human body. Mere physical growth can no longer be our main activity. We can no longer expand physically by adding to our area. We must expand vertically, by cultivating our resources better. We can no longer expand industrially by creating wholesale our new physical equipment; we must reorganize our productive mechanism for the purpose of using it more continuously, more intensively, above all, more purposefully. We can no longer add to our market just by increasing our numbers: we must add to it by increasing the standard of living for a relatively fixed population."

The women of America can help mightily in preparing the public mind for these necessary changes. You can help to make these changes peaceful, orderly, and democratic by using your influence to overcome the institutional obstacles and habits of thought that impede the solution of our economic and social problems. By conferences like this you can strengthen the fabric of democracy and enhance the prospects of its fuller achievement.

PART IV

DEBT AND ECONOMIC STAGNATION—A PROPOSED REMEDY

by

IRWIN S. JOSEPH

DEBT AND ECONOMIC STAGNATION

A PROPOSED REMEDY

BY IRWIN S. JOSEPH

CONTENTS

This booklet is dedicated to you and to your fellowmen in whose interest it has been written

ECONOMIC PREPARATION

Most of us own property in some measure or other.

If this country should unfortunately go the way of the totalitarian states—if we should lose our property as happened in Russia—or if we should retain our property, yet be divested of its control and of the greater part of its income, as happened in Germany and Italy—then you will wonder what might have been done to have prevented this change from occurring.

Individually, it is difficult for us to check the totalitarian surge. Collectively, however, we ought to be able to avert such a catastrophe, if, willingly and without prejudice, we face the problems now confronting us and act deliberately to solve these problems in a logical and practical manner.

Enjoying the ownership of property and other democratic liberties, we in America today still control our own destiny, and through it, perhaps, the fate of world civilization. Should freedom be lost and democracy extinguished as a result of unsound practices in our economy we can but look to ourselves for the responsibility for such failure. That we may not fail, let us make every effort to find what may be wrong in our present economy.

It is necessary to do more than prepare ourselves on the material or military front by building up our national defense. Against totalitarian aggression from without that sort of preparation is self evident, but against aggression from within, arising from discontent, it is equally sound and important to prepare ourselves on the social, or what might be properly called the truly democratic, front. That involves building our economic defense by solving unemployment, under-consumption, investment stagnation and other kindred economic maladjustments which give rise to discontent and possible internal aggression. For want, idle capital, and idle labor no longer make sense in a world of abounding resources.

THE DEBT PROBLEM

In this country, in which genuine democracy seems more nearly to exist than in any other nation in the world, we have long been experiencing these economic maladjustments and know how vitally they are affecting our democracy. Much has been said of late about the effect of debt on the body economic, and much consideration has been given to the problem of the mounting national or public debt. This booklet is concerned with private debt as well as public debt, and particularly with that kind of private and public debt known as long term debt.

Debt has been used as an instrument of finance for many centuries. It has been a valuable tool, through which men and nations have attracted the investment of funds for the permanent improvement of productive facilities, and through which banks and financial institutions have expanded credit to bring about increases in the production and consumption of goods.

As we know, the debts that we incur are contracts which call for the payment of specific charges for the use of money, and the repayment of the funds loaned at some stipulated point of time. As long as the economy is prosperous, credit can be maintained and loans can be paid when due merely by incurring new debts to pay off the old. When, however, credit is contracted by reason of a deflation in values, as in an economic depression, loans cannot be paid off in this manner, and a great deal of economic maladjustment results.

We have been witnessing a condition of this character since 1929. Considerable similarity exists between our experience of the last 10 years and the famous fable of the goose that laid the golden eggs. Industry has been like the goose of that fable, for under favorable conditions it has been able to supply the golden eggs in the form of regular periodic payments out of the profits that it was capable of earning. However, industry can only do what is reasonable. And if through unsound practices, like the greedy owner of the goose, we demand more from industry than it can supply under unfavorable conditions, we will kill industry as the owner killed the goose, and there will be no eggs at all.

The author is very much concerned about the effect of debt upon industry and eventually upon democracy. It is his belief that there is something inherent in the nature of debt, with its cancerous tendencies, that can make debt as destructive an instrument of society as it has been a useful instrument. He fears that debt may develop

into so great an obstacle to economic recovery that faith in the political system of democracy may give way to the demand for a more authoritarian form of government.

PART I

In order to discuss the effect of debt upon democracy, it is advisable to start out with acceptable definitions of the economic conditions we have been experiencing. It is well, therefore, to have a correct understanding of economic depression.

ECONOMIC DEPRESSION

We might define depression as a state of the economy in which the total national income has substantially declined—that is to say, a state in which the production, exchange, and consumption of goods have fallen to a marked degree. This condition is accompanied by unemployment and a low mass purchasing power. The factors that make up the economy are thus all operating in low gear.

To correct this state of maladjustment and to achieve recovery, it is obvious that the level of production and consumption must be raised. To expand consumption, mass purchasing power must increase. In a democracy this should occur in a natural way. Purchasing power increases in a natural way when the unemployed are put to work. To put them to work, production must be expanded. But the expansion of production requires money or capital which must be made available.

IMPORTANCE OF CAPITAL FLOW

Our economic system is monetary and is therefore logically called capitalism. For capital is its lifeblood. Capital must circulate in sufficient quantity and at sufficient velocity in order that our system may live. When all our capital is flowing, production and consumption of goods are near a maximum. Under such conditions, it is virtually impossible for depression to exist. It is when capital substantially is withdrawn from the system that depression becomes evident. And we might properly say that the extent to which the flow of capital is restricted is itself a measure of the degree of depression.

For 10 years we have witnessed a restriction in the flow of capital. For 10 years, therefore, we have not experienced the prosperity of which this country is capable. The solution of our problem might be found were we to discover what is responsible for the slowing down of the flow of capital. We must therefore inquire why our reservoir of funds lies idle and is prevented from irrigating and sustaining the economy.

THE DEBT BURDEN BRINGS ON DEPRESSION

Let us make this inquiry properly by going direct to the source. Let us ask those who own capital, for they are the potential lenders and investors. They control the opening and closing of the floodgates of the reservoir of our economy. They have the final say as to whether capital is to be released.

One of the motives that influences the release of capital is the motive of profit. For only when there is prospect for profit will investors permit their capital to be employed. If lending and investment prove precarious, then prospect for profit changes into prospect for loss, and capital is not released.

But what exactly can this mean? If lending and investment prove precarious one of the reasons for such a condition can be attributed to the fact that previous investments are going wrong. That loans that have been made are not being serviced. That contracts of debt are not being met.

When the economy proves incapable of servicing an appreciable amount of the debt it has incurred, it is natural for investors to pause, to change their attitude from one of confidence to one of anxiety. Therefore, investors not only are unwilling to release capital under these conditions—they actually call in loans wherever possible. They thereby drain off a portion of the capital that is irrigating the economy and store it in the already rising reservoir of funds.

This is the picture of credit contraction. The depression of the 30's from which we have not yet recovered is a repetition of this sequence of events. It followed a curtailment of lending and investment in the final months of 1929 because confidence had received a telling blow from the major international debt defaults of Loewenstein in Belgium, Hatry in England, and later the Kredit Anstalt in Austria.

Apparently the weight of debt plays a major role in all depressions. It is the fixed and rigid contracts that do not permit of compromise that create a lopsided relationship between the amount of debt and the earnings from which it may be serviced.

As a result, industry strives to increase its earnings that it may strengthen its financial position in order to continue to service its debt. But the procedure followed seems to produce the opposite effect, decreasing earnings and increasing the debt burden.

THE DEBT BURDEN PREVENTS RECOVERY

If there were an adequate flow of capital, as in prosperous times, we could expand production and thereby increase earnings. In the absence of this flow of capital, industry resorts to the reduction of operating and production costs. But any portion of the cost of materials or cost of labor that industry might be able to save is eventually lost because it is offset by a corresponding reduction in purchasing power which depresses the selling price of the goods produced.

This procedure results in a spiral of deflating prices which further reduces earnings and intensifies the debt burden. Bankruptcy and foreclosure ensue and spread throughout the economy. Instead of arresting the situation and bringing about recovery as most people would expect, bankruptcy continues to deflate the economy.

The attempt by those who are still burdened with debt to reduce costs of production continues adversely to affect industry. Employment, purchasing power, consumption, and production decrease in turn, one after the other. The factors of the economy are thus forced to lower and lower levels and conditions become so critical that they tend to invite drastic action.

THE NEW DEAL AND ITS DRAWBACKS

In 1933 conditions were so critical that drastic action was applied. The New Deal was born. One measure after another was enacted: subsidies were paid to the farmers, relief to the unemployed, Federal work projects were authorized, and the pump was thus primed at the expense of increasing the Federal debt.

One of the questions of the day is whether the measures of the New Deal have brought about recovery. We have enjoyed recovery, if by "recovery" we infer an improvement in the material welfare of the people. But we have not attained recovery, if by "recovery" we would infer that that improvement can be maintained without continued government spending.

The validity of our recovery was tested in 1937. For we found that curtailment of government spending at that time brought on an immediate recession, because the flow of capital that government spending created was unfortunately not replaced by a similar flow of capital on the part of private industry. We failed to realize that the still prevailing inability to service private debt and the strain imposed by higher taxes due to increased Federal debt would prevent the necessary flow of private capital. Government expenditures accordingly had to be resumed.

Once again our material welfare has improved, but the increasing amount of debt arising out of this procedure is further weakening the possibility of permanent recovery.

THE OLD SYSTEM AND ITS DRAWBACKS

In principle the author opposes the continuation of government spending. But he does not share the idea of those who believe that recovery can be attained merely by curtailing government expenditures to balance the Budget through the elimination of certain New Deal measures.

Recovery apparently depends upon a substantial flow of capital which itself depends upon the re-establishment of confidence—not just confidence in government, but confidence in business—confidence based on prospect for profit. Since earnings are evidently insufficient at this time to service a considerable portion of our current debt at the existing levels of prices and production, confidence does not exist. Investors obviously are not desirous of risking capital, nor do producers wish to borrow capital. Balancing the Budget, instead of stimulating capital, as some people claim, would in all probability frighten capital. It would create confidence in government, but hardly in business. For the curtailment of government spending would decrease purchasing power, and thereby adversely affect either the consumption or the price of goods, and therefore, business profits. Accordingly, recovery would not appear to be attainable by budget balancing alone.

What must we do, then, to attain recovery?

Some people claim that we shall attain recovery without planning it. They claim that this depression, like every other through which America has passed, will disappear through the operation of natural forces. The author, however, does not share this opinion.

If we look back upon the depressions through which capitalism has passed, we find that there are two phases, one of which the economy traverses before prosperity again recurs.

One such phase can be the cruel destruction of values arising from monetary inflation, in which the economy experiences a virtual breakdown followed by a complete reconstruction on a new basis of values. This is what occurred in Germany after the World War of 1914–18. It is generally the result of a gigantic and unbearable national debt which is liquidated through currency devaluation. Through the unbridled printing of paper money, currency becomes less and less valuable. Prices soar skyward, and through this rise debtors profit to an extent great enough to enable them to pay off all their indebtedness rapidly. It then becomes necessary to re-establish a sound currency. The process is speedy but cruel.

The other phase which may be traversed by the economy is the more natural phase. It is a slower process, and because of its slowness appears to be less hurtful. It is not, as most people want to believe, the phase of merely liquidating debt through bankruptcy. We have already noted that this in itself not only accepts the condition of deflation but assists in further intensifying deflation as long as a substantial portion of debt remains. What happens is, that at some point of time, as deflation and bankruptcy are taking place, entirely new industries appear on the horizon, of such importance and so full of prospect for profit that the amount of capital they are able to attract starts a flow of investment sufficient to invigorate the entire economy, and stave off further bankruptcy. Those industries fortunate enough to have retained their solvency are saved by the new set of conditions. Their debts, on the verge of being defaulted, are once again able to be serviced.

In this connection we may recall how favorable was the influence of the growing railroads on the welfare of this country, how American prosperity was enhanced through the expansion of the electrical industry, the production of automobiles, and the consumption of petroleum. Today, however, no new industries appear presently capable of attracting a flow of capital sufficient to extricate the economy from its present stagnation and huge debt involvement.

Must we wait for such industries to develop? It might mean another 10 years. In waiting, would we not be aggravating unemployment, and might not the resulting discontent invite revolt and so threaten our present way of life? With much of the world already spiritually beaten, such an influence upon our people makes further delay precarious.

THE IMPASSE

Have we not, therefore, come to the point of the road where the path to recovery under democracy can no longer be traveled in safety with the equipment of former days? In other words, since recovery appears unattainable by debt reduction through bankruptcy, and since it also appears unattainable by debt expansion through Federal subsidies, is it not obvious that some other procedure must be considered to achieve this goal?

THE OBVIOUSNESS OF OUR PROBLEM

The problem seems self-evident and yet probably suffers from that very fact, for generally nothing is dismissed so quickly or receives so

little consideration as does the obvious. The problem, in addition, is so far reaching that almost everyone is fearful of touching it, afraid that an attack upon a practice once useful, despite its present destructiveness, might not produce the cure. But this is very much a matter of approach. For many people who are fearful of hospitals and distrustful of surgical or medical attention avoid operations and remedies until too late, and so permit their afflictions to spread to fatal proportions.

THE RESPONSIBILITY OF GOVERNMENT

Then, again, the far reaching nature of this problem may explain the lack of debt discussion on the part of Congress. While in almost every quarter the urgency of attacking the problem is admitted, nothing of substantial importance has yet been done in this direction.

Should not Congress by now appreciate the momentous necessity of considering this question? Congress has already taken many forward steps in the regulation of labor, industry, and agriculture in the interest of the general welfare, steps that may even have been accepted reluctantly by some of us but which ultimately should prove beneficial. Why, therefore, should Congress not now consider constructive regulation of finance, of capital, of long term investment—of debt?

Such constructive regulation of debt and finance as may be worked out should of course adapt itself to a free economy in which the profit motive continues to be the moving force. Virtually all of us are committed to the validity of the profit system, yet the system is presently not particularly successful and apparently needs the very type of constructive regulation suggested, that we may in the future pursue a course of intelligent selfishness rather than a selfishness that is uncoordinated and badly balanced.

COOPERATION OF CREDITORS

Any satisfactory solution of the debt problem would evidently require cooperation on the part of the creditor bondholders. The bondholder of today is very much like a passenger on an ocean liner. Passengers have the right to service and passage until the ship is endangered by storm, and thereupon it becomes their interest, in fact, they are even compelled, to participate in all actions necessary to save the ship. Smooth sailing, clear sea, the bondholder rides. These are turbulent days, these are not clear seas, and the economic ship is admittedly in grave danger.

It becomes time for the bondholder to do his part and if out of tradition and conventional attitude, he takes a stand, unintelligent for himself and the rest, it becomes necessary perhaps to force him to participate more. There is a fair wage due to bonds, but the fair wage of today, so that it may not be destructive, is not the fair wage of yesterday. And in terms of police power and good of the public and the public safety, it becomes desirable for Congress to more equitably and justly allocate among bondholders and active creditors and producers the earnings of production. Arithmetically, the bondholder will seem to have lost a right in terms of bond interest, and seem to have been deprived of his technical due. We are offered the choice of the present market value of bonds supported by business, too choked by its bonded

indebtedness to be able to be solvent, as against the value of those same bonds attached or affixed to successful going concerns. We cannot fail to realize that bonds can only be serviced by industry out of production and profits, and if bonds by their demands frighten away the participation of active capital there will result neither profits nor interest, nor, in the last analysis, bonds.

PART II

It is not the purpose of the author to exclaim "Eureka" and to make the extravagant claim of having found an infallible remedy for our economic maladjustments. What is most vital in his opinion is to stress the importance of seriously thinking about the debt problem—of discussing it intelligently among ourselves—that we may impress upon Congress the necessity for coming forward with a constructive program to master this issue.

While a solution of the debt problem may not and doubtless cannot provide the complete answer of the whole problem of depression, no one can assume that any solution of our economic maladjustments can leave out the consideration of this one and very primary question. And since the author has spent many years and given considerable thought to this subject, it would perhaps not seem out of place at this juncture to submit to those who may be interested the analysis and conclusions he has reached—to submit these for acceptance, modification, or rejection.

We have found that debt possesses within itself certain rigid characteristics that produce deflationary effects and repercussions which help bring about economic depression and prevent the return of recovery. It would appear natural, therefore, to explore the possibility of eliminating debt as one of our financial practices. The question therefore arises as to whether such a program could be practical. To answer this question we should examine the various types of debt that we are now in the habit of incurring, and determine the degree of safety or danger of these obligations, and the degree of their importance.

NECESSITY OF SHORT TERM DEBT

There are in general two types of debt—short and long term debt. Commerce is based almost entirely on short term debt. Without short term credit, which sets up short term debt, trade would dwindle to such small proportions that there would be very little exchange of goods. The public would have difficulty without its credit from the local store, the gas and electric company. Retailers in their turn require credit from producer and wholesaler. Society could not get along without this type of credit—sufficient reason that its elimination must not for a moment be considered. This is also the type of credit which is provided by banks in the form of short term commercial loans to industry, and by business, in the form of short term installment loans to individuals. Credit and debt in this form are both healthy and sound. Short term loans do not tend to cause depression, because they are so amply secured by liquid assets that they are practically never defaulted.

DANGER IN LONG TERM DEBT

The kind of debt that tends to be unsafe and cause depression is long term debt. The danger in this debt lies in its susceptibility to default, which comes from the greater degree of speculation in a long term contract as opposed to the speculation in a short one. Promises are made which frequently cannot be fulfilled because of unpredictable economic conditions. These promises guarantee interest payments over a long period of years at a fixed rate, and because no escape is possible from the agreement once made, the debtor is obliged to make these payments irrespective of his ability to earn them, and continues until he is forced to default. When default becomes general, as occurs in a deflation of prices and production, the elements of depression set in.

Since long term debt is that type of debt that tends to bring on depression and prevent recovery, the question is whether, if eliminated, something else can be substituted in its place that would be as useful as long term debt without possessing any of its disadvantages.

An analysis of the concept of long term debt will help furnish the answer.

MISCONCEPTION OF LONG TERM LOANS

We think of long term loans in the same sense as short term loans, as being repayable in money at the date of their maturity. This can rarely be accomplished in a true sense, because debtors seldom possess sufficient liquid assets for conversion into money. They therefore resort to refunding operations, incurring new long term debts in order to pay off the old. Railroad, utility, and real estate loans, which make up the vast majority of private long term debt, are virtually all paid off in this manner. Therefore, long term loans are truly not loans at all, because they have to be extended indefinitely. They are permanent investments, and as such ought not be guaranteed to yield a fixed rate of interest. As permanent investments, they ought have only the right to a return commensurate with earnings, as in the case of equities. Long term loans, excepting for their priority, are the same as equities in the sense that the values in back of them are the fixed or "frozen" assets of the corporation into which the funds of the original loans were converted.

If, therefore, to eliminate long term debt we set up a procedure under which all private long term loans might be ethically transformed into equities having priority on assets in the event of corporate liquidation but having no claim to interest or dividends in the absence of earnings, the question then arises whether such limitations would help bring money out or keep it from being invested.

BENEFIT FROM ELIMINATION OF LONG TERM DEBT

Let us compare the old and new set of conditions and logically reason what could happen.

We know that a curtailment in the flow of capital is largely due to a falling off in the prospect for profit. Today, with fixed charges of debt as a burden on industry, the prospect for profit is diminished when the price level falls. For a fall in prices will cut dollar earn-

ings. As a result fixed charges become a greater proportion of those earnings, reducing profits and unfavorably affecting prospects for profit. When earnings are so cut by deflation as to barely cover the interest on debt, we witness a serious stagnation of new investment.

In the early stages of a general price deflation, bondholders who are the recipients of the "fixed charges" receive a cumulatively growing proportion of the national income, larger than their percentage of participation warrants, while business gets a continually diminishing share.[1] This unbalanced situation gives rise to a cost cutting program, applied to the wrong part of the circle of production, tending ultimately to reduce production. And since production reflects income, this unbalance reduces national income and the extent of our security and welfare.

If long term debt were no longer a financial practice, the fixed charges of long term debt would not exist, and a drop in the price level would have an entirely different effect upon the economy. A drop in the price level would naturally reduce dollar earnings, and the return on capital would be smaller. But that smaller return would now be distributed in proportionate parts to a cooperating group of owners instead of being disproportionately distributed to a conflicting group of interests. And though the return be smaller, it would, nevertheless, retain the same degree of purchasing power as the previous larger return by reason of the very drop in the price level. That is to say, the purchasing power of the economy would be constant, even if prices dropped. Accordingly the standard of living would tend to be maintained and the general level of production would thus tend to continue. And, by the same process of reasoning, an inflation in the price level, though increasing dollar profits, would not change the purchasing power of those profits.

UNDIMINISHING PURCHASING POWER AND SECURITY

The net result would be that despite fluctuations in dollar earnings, the constant value of those earnings would give the investor class a fixed income, measured in goods and services, the kind of income and security that bondholders have always wanted but never received. Today, their fixed "money income" has a fluctuating value measured in goods and services. In this a double paradox becomes evident, first, that the practice of seeking security through guaranteed returns on investment has given bondholders insecurity, and, second, that a reversal of this attitude, of not demanding a guaranteed return, would actually give them security. This means that there is more value in participating in an enterprise that is active than having a lien on one that is inactive. In other words, the use of wealth, not its possession, is our real security.

Since changes in the price level would not affect the income of goods and services in an economy freed from long term debt, the investor group as a whole would continually enjoy a true sense of security. Investors would have confidence in the economy and, therefore, would not hesitate to invest available funds, because they would know that new investment in needed projects under good management must necessarily

[1] According to figures of New York Federal Reserve Bank and Survey of Current Business (June 1939), respectively, the general price level fell by one quarter from 1929 to 1932 while interest paid rose proportionately one half from 6.7 to 10.7 percent of the national income.

improve production and thereby produce an increment of goods and services in which they will share.

The statements that have just been made apply to the economy as a whole, and so represent an average. Naturally no two investments are alike in degree of risk. Projects of a speculative nature would exist in the new economy just as they exist in our present economy. And just as capital has always been provided for such projects, capital would continue to be furnished by those who speculate. Should a speculative investment meet with failure it would disturb confidence only in the project itself or in other projects of a similar character. The effect would be localized. It would not be likely to spread through the economy as it is able to do today. It would not disturb confidence in general investment because, as just stated, new investment in needed projects would produce an income of goods and services in which the investor class would necessarily share.

PROGRAM OF LONG TERM DEBT ELIMINATION

If majority opinion is inclined to believe that society would enjoy security, prosperity, and freedom by eliminating long term debt, the practical program to accomplish this becomes the next important question.

It seems that such a program might consist of two steps. The first step would be to prohibit, by proper legislation, any new investment in the form of private long term loans of a corporate or business nature. This would allow the granting of modest loans to millions of prospective home owners, a category of long term debt the retention of which could work no injury upon the economy. For these loans would be individual and small and would be safeguarded by amortization features.

The second step would be more difficult. That would involve the transformation of current outstanding private long term loans into equities which would have priority on assets in the event of corporate liquidation, but no claim to interest or dividends.

Such a transformation ought to be ethical with respect to present debtors and creditors. To make it ethical the author believes that money ought to possess the same purchasing power that it had when the debts were at their peak. For at that time, the debtor-creditor relationship was acceptable.

At the current price level, which is considerably under that of the peak days, money has too high a purchasing power. Some adjustment accordingly ought to be made for the difference. Psychologically this might prove painful to creditors. And in that case we might consider working out the transformation after attaining a higher price level through a final government spending program on public works.

The author has already said that, in principle, he opposes the continuation of government spending. And he believes that the public holds the same view. But if this were to be the final spending program to bring about a return to prosperity that we could actually retain, the public might accept such a program. Such a program would increase employment and simultaneously raise the volume of production and the price level. This would make business generally profitable; and existing private long term debts and loans would approach their relative position of the days prior to the depression.

The foregoing represents certain suggestions on debt transformation. It is evident that practical plans for the transformation of loans into equities can best be developed through study and interchange of ideas by those entrusted with the enactment of this legislation. As we are today witnessing a good deal of corporate reorganization in which various forms of securities are being exchanged for others in order to lessen the fixed charges of operation and in this way to make possible the continuation of many corporations, we might consider following a procedure of the same character, going the "whole way," however, by exchanging present bonds not for new bonds bearing reduced interest charges but for an equitable amount of new securities participating proportionately in earnings.

EFFECT ON ECONOMIC FREEDOM

The elimination of private long term debt through Federal legislation might lead some of us to ask whether such enactment would deprive us of a form of economic freedom it should be our right to enjoy. Here arises the question as to the safe limitation of freedom. We must remember that the task of good government is "to combine that degree of liberty, without which law is tyranny, with that degree of law, without which liberty becomes license." Restriction of investment through invalidation of long term loans might be viewed in the same light as restrictions imposed upon present day traffic.

In late years the congestion of traffic has made necessary the regulation of its circulation for the public safety. While the individual is deprived of a certain form of freedom through such regulation, in the final analysis he is the gainer because the elimination of congestion permits him to circulate more rapidly and therefore more freely. In like manner, regulation of investment through the elimination of that form which is unsound might deprive us of a certain type of freedom, but in the final analysis it would enhance our total economic freedom by making all investment more secure and therefore new investment generally attractive.

PUBLIC DEBT

So far we have discussed the elimination of private long term debt. Though the amount of private long term debt outstanding in this country is considerably greater than the amount of public debt, it is important that we consider also the problem of eliminating public debt.

It is true that public debt differs in certain respects from private debt. In the event of default, the creditor of a private corporation can place the corporation in bankruptcy and foreclose the corporation's property in satisfaction of his claim. The creditor of a municipality, state, or government cannot, however, satisfy a claim on a defaulted bond in a like manner. In the case of municipal or state loans that are defaulted, there is no property which can be taken over, and therefore some settlement is generally agreed upon under which new bonds are exchanged for those that have been defaulted, with an extension of maturity date and a lowering of the interest rate. In the case of Government bonds, payable in the Government's own currency, a way is always open to meet payments through the power of the Government to devaluate its currency.

Although there is this difference between private and public debt where default is concerned, the fixed charges of public debt are nevertheless a burden on the economy as are those of private debt. The fixed charges of public debt are met through taxes which, in the final analysis, are paid by industry. And so it is important that the burden of these charges be removed.

The burden of public debt is properly removed by gradual amortization. To accomplish this without resorting to measures of currency inflation, tax revenues must exceed fiscal expenditures. Therefore, we should not expect any reduction in the public debt until our national income is large enough to provide a tax surplus. It would appear, therefore, that the sooner we achieve the elimination of private long term debt, the sooner may we achieve the conditions of a prosperous economy and expanded national income under which we may be able to amortize public debt and move toward a still higher level of prosperity.

EFFECT ON INSTITUTIONAL INVESTMENT

The change in long term investment procedure would, of course, transform the portfolios of insurance companies, savings banks, and trust companies. As holders of equities, these institutions would become part owners and have a voice in the management of their property, resulting in a more efficient supervision of enterprise. Today they have that voice only after their loans have been defaulted.

Over the past decade insurance companies have been experiencing gradually diminishing yields on their securities. They are becoming aware of the inherent character of long term bond investment that prevents this type of investment from being expanded indefinitely. For the mathematics of compound interest makes evident to them that the cumulative piling up of funds into loans creates a mountain of debt that eventually cannot be serviced without interest rates gradually falling to zero or inflation wiping out the value of money.

INCREASING REALIZATION OF THE DEBT PROBLEM

Since the crash of 1929 a number of investigators have assembled considerable statistical information on domestic debt. Many writers have come to the conclusion that long term debt presents a serious problem in our economic life that must be faced and met. In 1933 Prof. Irving Fisher wrote a paper on this subject entitled "The Debt-Deflation Theory of Great Depressions." Within the last 2 years the Twentieth Century Fund subsidized a comprehensive research into debt problems, which resulted in the publication of the book, "Debts and Recovery, 1929–1937." This book discloses in a factual manner the extent to which our economy is burdened with long term debt, the danger that this situation creates, and the necessity for forward action. It concludes with the statement: "For a durable recovery, the committee is convinced means must be found to make equity investment more attractive to investors." The author believes that the most practical means is the elimination of long term debt itself.

The financial structure of the capitalist economy, to be useful, must be strong enough and sound enough to support the economy. When we discover that bridges, adapted to the traffic of the past, can no longer sustain the heavier load of modern transportation, we do not

bemoan the situation, but forthwith condemn those bridges as no longer safe, and set out to adapt them for the heavier traffic. We, who are the architects and engineers of finance, should in like manner condemn the weakness of the old financial structure and set out to strengthen it for present needs.

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CONSIDERATIONS AS TO THE FUTURE

And so we are faced with a composite of idle men, idle land, idle machines, and idle money, while a large part of the Nation is ill-fed, ill-clothed, and ill-housed. If we should fail to take the necessary measures to cure unemployment while democracy is still enjoyed, we shall tend involuntarily to promote unrest and discontent upon which dictatorship can feed.

Everyone knows how much more rapidly the unemployed can be given jobs under dictatorship and the effect that this has on their morale. As a result, dictatorship usually wins a strong following in the first years of its power. And though we believe that men will eventually demand the freedom that dictatorship denies them and start revolution to terminate enslavement, the author does not see how we can be willing to let civilization take this long, inhuman course when we might avoid it.

To overthrow democracy for dictatorship and then in turn to overthrow dictatorship for the reestablishment of democracy would be a cycle of government that would cost us dearly. In much the same manner do we pay for the cycle of business when we suffer depression between periods of prosperity. Both cycles result from impractical human behavior, and both might be corrected by the application of a little common sense.

APPENDIX

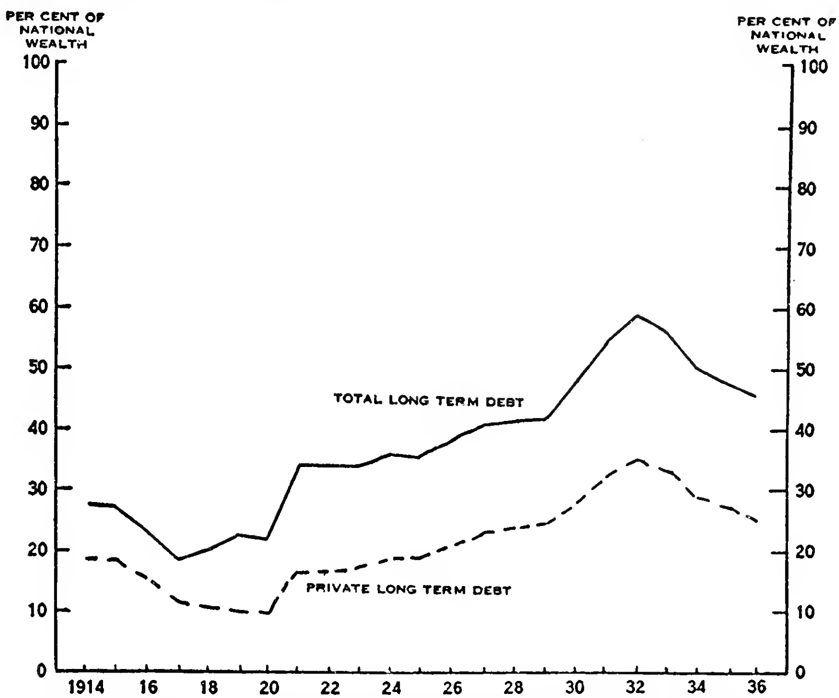
The relationship of debt to wealth

Year	Billions of dollars			Private long term debt in percent wealth	Total long term debt in percent wealth
	National wealth	Private long term debt	Total debt		
1914	180.6	33.3	49.9	18.4	27.6
1915	188.4	34.8	52.0	18.5	27.6
1916	236.7	36.2	55.9	15.3	23.6
1917	332.0	38.6	62.6	11.6	18.9
1918	378.6	40.1	75.7	10.6	20.0
1919	407.7	41.4	92.8	10.1	22.8
1920	463.1	46.2	102.1	10.0	22.0
1921	298.4	48.7	102.8	16.3	34.4
1922	301.3	50.7	102.9	16.8	34.2
1923	319.5	55.4	109.7	17.3	34.3
1924	317.2	60.4	115.5	19.0	36.4
1925	340.6	65.3	122.2	19.2	35.8
1926	335.0	70.5	129.2	21.0	38.6
1927	325.2	76.0	135.3	23.4	41.6
1928	338.7	81.2	141.9	24.0	41.9
1929	340.0	84.2	143.0	24.8	42.1
1930	309.2	85.8	148.4	27.8	48.0
1931	261.8	84.5	143.6	32.3	54.9
1932	230.6	81.8	137.1	35.4	59.5
1933	232.4	77.6	131.1	33.4	56.5
1934	263.6	76.8	132.8	29.1	50.4
1935	280.0	76.9	133.7	27.5	47.8
1936	305.0	77.0	140.0	25.2	45.9

Sources of above figures:

On national wealth and private long term debt: "Private Long Term Debt and Interest in the United States" (p. 58), a publication of the National Industrial Conference Board.

On total debt: Author's computations based upon "Seven Kinds of Inflation," by Richard Dana Skinner (Whittlesey House (McGraw Hill, 1937)).

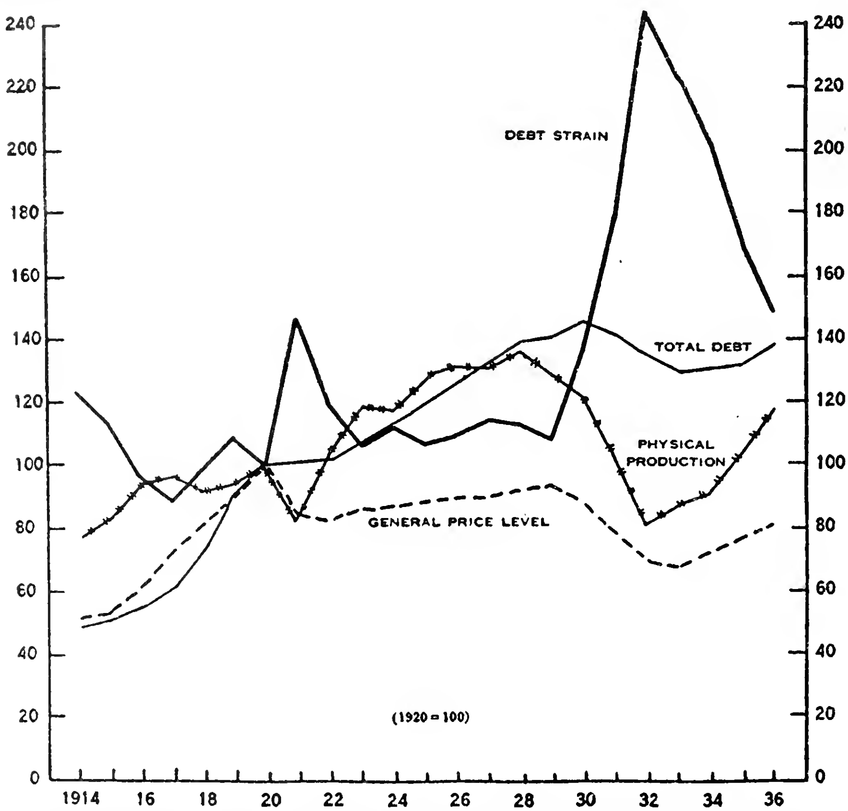


This chart, based on the statistics appearing above, discloses the growth of debt expressed in terms of national wealth. It is to be noted that the physical wealth of the Nation, though permanent, fluctuates in value because of changes in the price level, whereas price changes do not affect the dollar value of debt.

The relationship of production and prices to the cost of sustaining debt

Year	Total debt	General price level	Physical production	Debt strain
1914	48.8	51.8	76.3	124
1915	50.9	53.4	83.5	114
1916	54.7	60.6	94.0	96
1917	61.3	72.0	95.7	89
1918	74.1	81.5	91.5	99
1919	90.8	89.6	93.5	108
1920	100.0	100.0	100.0	100
1921	100.7	84.5	82.2	145
1922	100.8	81.9	103.0	119
1923	107.4	85.5	118.3	106
1924	113.1	86.0	117.0	112
1925	119.5	88.0	127.3	107
1926	126.5	88.7	131.2	109
1927	132.5	88.7	130.6	114
1928	138.9	91.2	135.8	112
1929	140.0	92.7	141.7	107
1930	145.3	87.0	121.3	137
1931	140.6	77.7	102.0	178
1932	134.2	68.5	80.5	244
1933	128.4	66.8	87.0	221
1934	130.0	71.0	90.0	203
1935	130.9	75.2	103.6	168
1936	137.2	79.8	116.7	147

The above table gives values of total debt, general price level, and physical production expressed in percentages of 1920 values. Indexes for general price level and physical production are those compiled by the New York Federal Reserve Bank, adjusted to 1920=100.



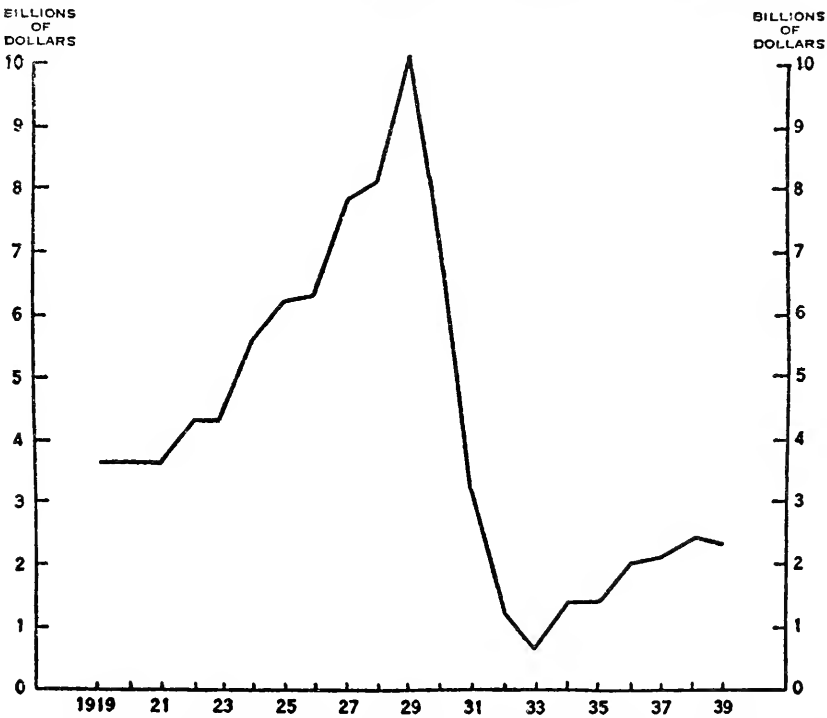
The above chart and the statistics disclose the influence of production and prices on the burden of servicing debt. The debt strain is an index figure which is calculated by dividing the total debt index by the price level index and again dividing this quotient by the index of physical production.

New capital issues in billions of dollars

Year:	*Amount*	Year—Continued.	*Amount*
1919	3.6	1930	7.0
1920	3.6	1931	3.1
1921	3.6	1932	1.2
1922	4.3	1933	.7
1923	4.3	1934	1.4
1924	5.6	1935	1.4
1925	6.2	1936	2.0
1926	6.3	1937	2.1
1927	7.8	1938	2.4
1928	8.1	1939	2.3
1929	10.2		

Source. The Commercial and Financial Chronicle.

The flow of new capital investment before and during the depression



This chart is based on statistics appearing above, which disclose the amount of new capital issues financed in this country as reported by The Commercial and Financial Chronicle.

PART V

CAPITALISTIC SYSTEM TO FIT PRESENT NEEDS

by

JOSEPH M. LURIE

273442—41—No. 25——13

CAPITALISTIC SYSTEM TO FIT PRESENT NEEDS

INTRODUCTION

Our present economic system has failed to function. It has failed to function several times in the past, but its behavior since 1929 makes it rather obvious that something basic is wrong with our economic system.

Probably the most satisfactory method of study of a problem with as many variables as this one is to postulate a theory, and then check how close the behavior of various variables fits the theory and the facts.

Thus we propose to postulate that the basic trouble of our system consists of dependence of production of consumer goods upon capital goods ("capital goods" shall mean such wealth as is used for purposes of production of goods or services with view of making profits) expansion.

In other words, development of automobile industry has not only served the purpose of giving us automobiles but also enables many of us to have shoes, clothing, and food.

Realization of this dependence of consumer goods production on production of capital goods has suggested policies leading to encouragement of production of capital goods.

We will show that quantitative consideration of data on the subject proves that it is impossible to solve the problem of production of consumer goods by stimulating production of capital goods.

The only solution is to make possible production of consumer goods and capital goods as needed and independent of each other except where technological dependence exists.

As an example, the development of aviation and television industry is necessary in order to have more airplanes and more television sets, but there is no basic logical reason why we should develop these two industries in order to produce more shoes, shirts, or food. Also it is not necessary to build armaments, roads, bridges, or houses to have food, medical care, and clothing.

We will endeavor further to show that breaking of this dependence of consumer goods production on production of capital goods can be achieved under a democratic political system and by retaining the basic features of capitalistic system.

Once the capitalistic system is modified so that consumer goods production is not dependent on capital expansion, we at once open an unlimited market for goods, servicing of which is only limited by our resources and ability to produce. Under such conditions labor scarcity will result and most of our urgent economic problems become solved without economic planning or dictatorship.

To evolve a true democracy under capitalistic system we must overcome one more fault of the system. We must stop the tendency of capitalistic system to concentrate capital wealth in a few hands. Of course, this phase involves "redistribution of wealth" through taxation, and is more of a social than economic problem. However, economic system must be such as to lend itself to necessary social control.

FUNCTIONING OF CAPITALISTIC STATE UNDER NORMAL CONDITIONS

For the purpose of this discussion the years 1850 to 1929 will be called normal, that is, a period during which the country was making economic progress with no tremendous amount of unemployment and only brief periods of depression. The capitalistic state is the economic state which existed in the pre-New Deal era with little Government interference and only a slight admixture of any system other than the capitalistic.

Under this normally functioning capitalistic system we have made a tremendous economic progress as shown by available data (charts 1 to 5).

Chart 1. Our national wealth increased from seven billions in 1850 to four hundred sixty billions in 1929, making a smooth progress by doubling itself every 12 years.

Chart 2. Our national income increased from seventeen billion in 1900 to eighty-two billion in 1929, and the value of our manufactured products increased from 3.4 billions in 1869 to seventy billions in 1929, the rate of growth in both cases being that of doubling every 12 years.

Chart 3. Our yearly saving increased from two billion in 1909 to thirteen billion in 1929, again making a smooth progress of doubling every 6 years.

Chart 4. Data for expansion of deposits in national banks show deposits of seven hundred million in 1870 and twenty-three billion in 1930, making smooth progress of doubling itself every 12 years.

Chart 5. Data for national capital growth are not available, although it would follow closely the growth of national wealth in rate. Increase in capital invested in manufacturing industries in the United States of America was from five hundred and thirty million in 1849 to twenty-five thousand million in 1914, and capital invested in manufacturing industries in the State of New York was one hundred million in 1849 and six thousand million in 1920, making a smooth progress of doubling itself every 12 years.

From the above it appears that the capitalistic system, functioning as it has from 1850 to 1930, or "normally," has caused our capital wealth to grow geometrically, or, in other words, double periodically (in our case roughly every 12 years). To fully realize the magnitude of this rate of growth we may compare it with a man's wages of $2 a day which are to be doubled every year; then he would receive $1,024 a day after 10 years, over $1,000,000 a day after 20 years, and should he live to work 30 years he would receive over $1,000,000,000 a day.

The consideration of the statistical data proves a historical fact that normal functioning of capitalistic state resulted in geometric growth of our capital. By considering further the normal operation of the system we can see that this geometric rate of growth of capital must go on indefinitely if the system is to function normally. First we must be certain that we are familiar with some of the basic facts:

(*a*) When the capitalistic system is functioning normally, national income rises and average family income rises.

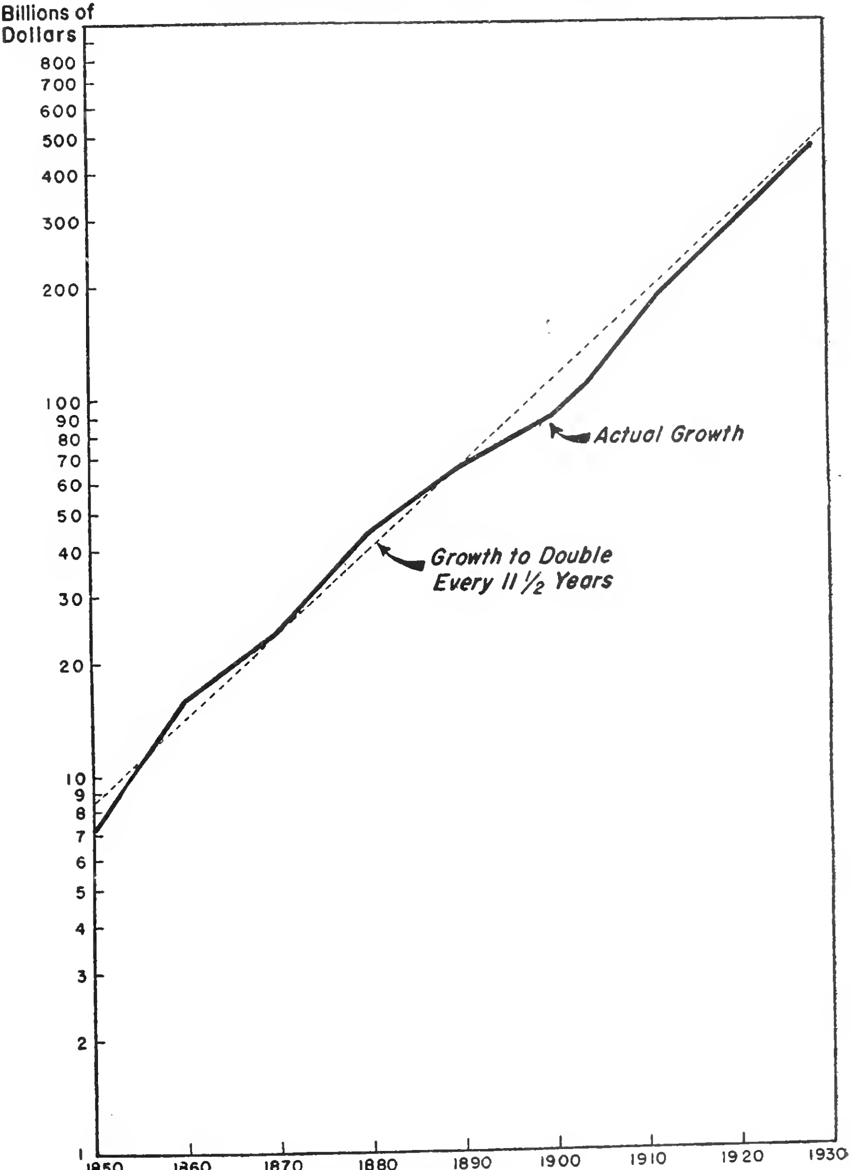
(*b*) As family income rises a larger proportion of income is diverted into savings.

(*c*) When capitalistic system functions normally, savings are largely represented by capital goods.

CHART I

GROWTH OF NATIONAL WEALTH

United States, 1850 to 1929



National wealth in billions

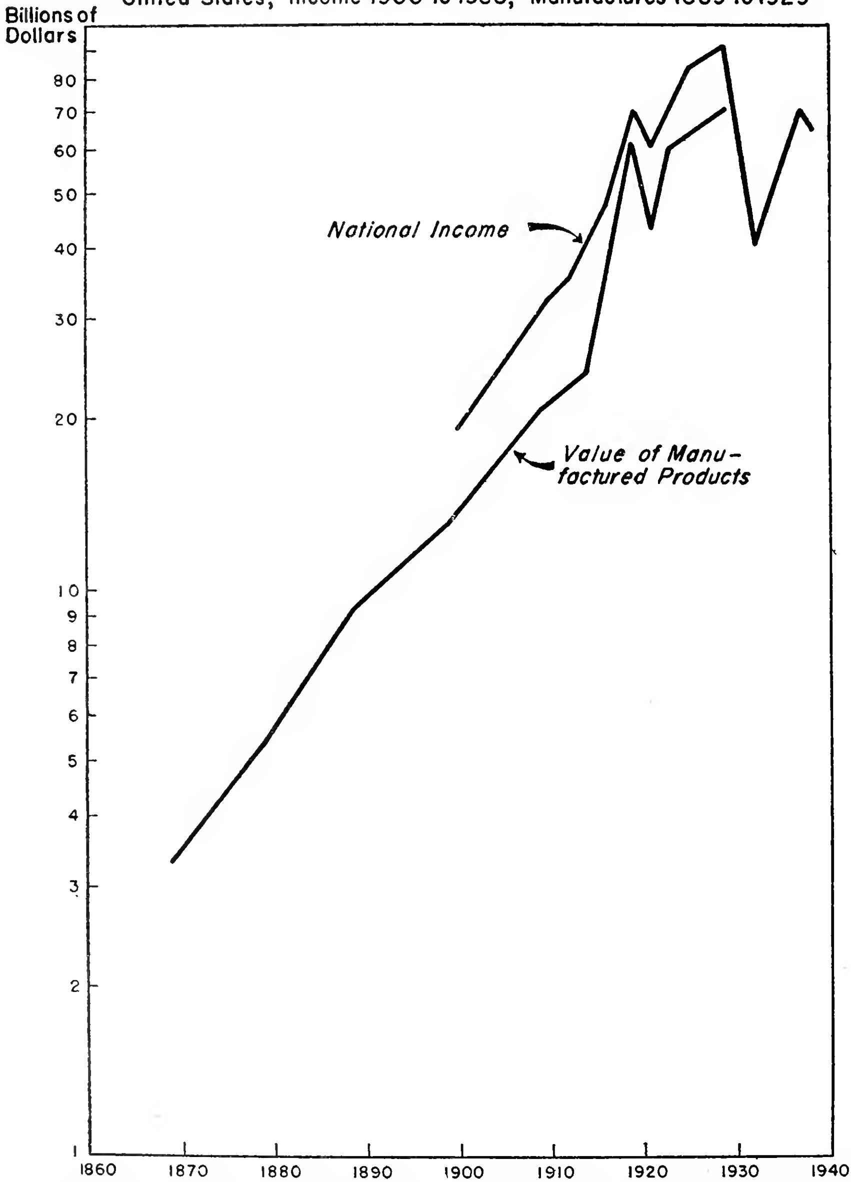
Year:	Amount	Year:	Amount
1850	7.1	1900	88.5
1860	16.1	1904	107
1870	24.0	1912	186
1880	43.6	1922	320
1890	65.0	1929	460

Source: United States Bureau of the Census.
The 1929 figure of $460,000,000,000 obtained from H. G. Moulton "Formation of Capital," Brookings Institution, Washington, 1935, p. 187.

CHART II

NATIONAL INCOME AND VALUE OF MANUFACTURED PRODUCTS

United States, Income 1900 to 1938,[1] Manufactures 1869 to 1929[2]



[1] Maurice Leven, Harold G. Moulton, and Clark Warburton, America's Capacity to Consume, Brookings Institution, 1934, p. 152.
[2] Harold Loeb, The Chart of Plenty, Viking, New York, 1935, p. 180.

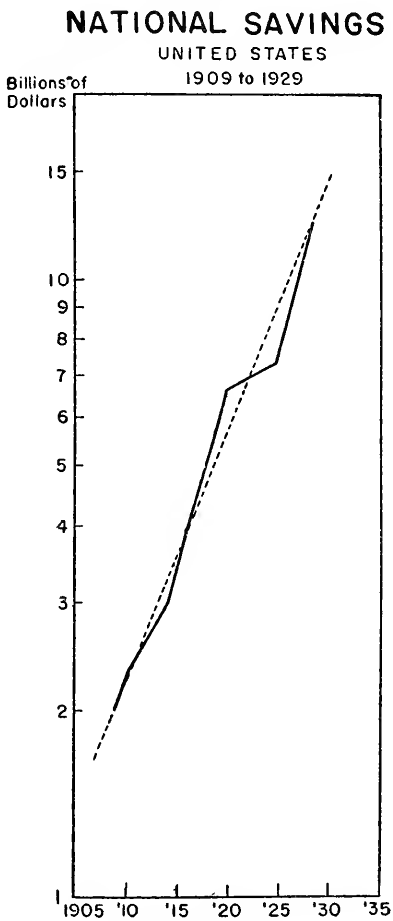
Income in billions

Year:	Amount	Year:	Amount
1900	19.1	1919	70.2
1910	32.5	1921	60.6
1912	35.2	1925	84.0
1916	48.2	1929	91.9

Value of manufactured products in billions

Year:	*Amount*	Year:	*Amount*
1869	3.3	1914	24.2
1879	5.4	1919	62.2
1889	9.4	1921	43.6
1899	13.0	1923	60.5
1909	20.7	1929	70.4

CHART III

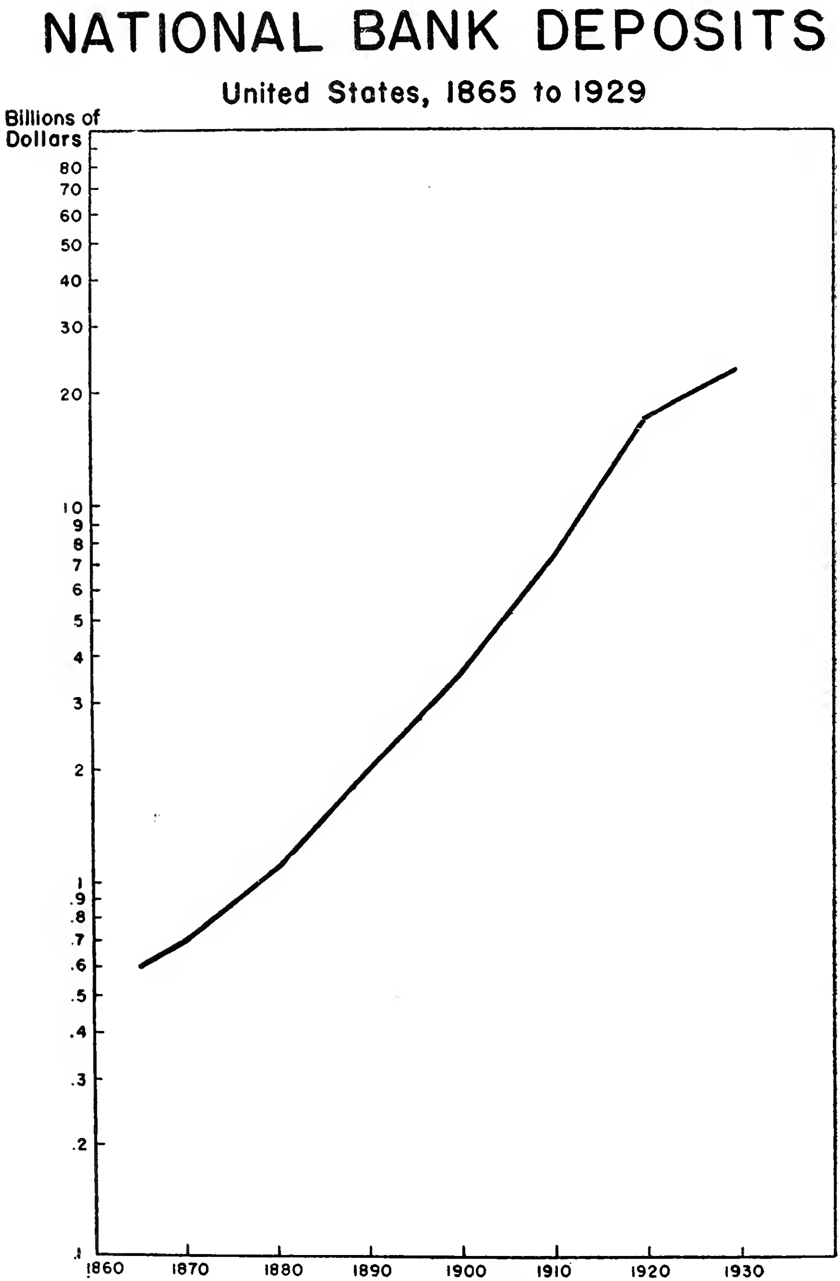


Saving in billions

Year:	*Amount*	Year:	*Amount*
1909	2.0	1919	5.7
1910	2.3	1920	6.6
1914	3.0	1925	7.3
1916	3.9	1929	12.4

Source: John M. Blair, Seeds of Destruction, Covici-Friede, New York, 1938, p. 171.

CHART IV



Deposits in billions

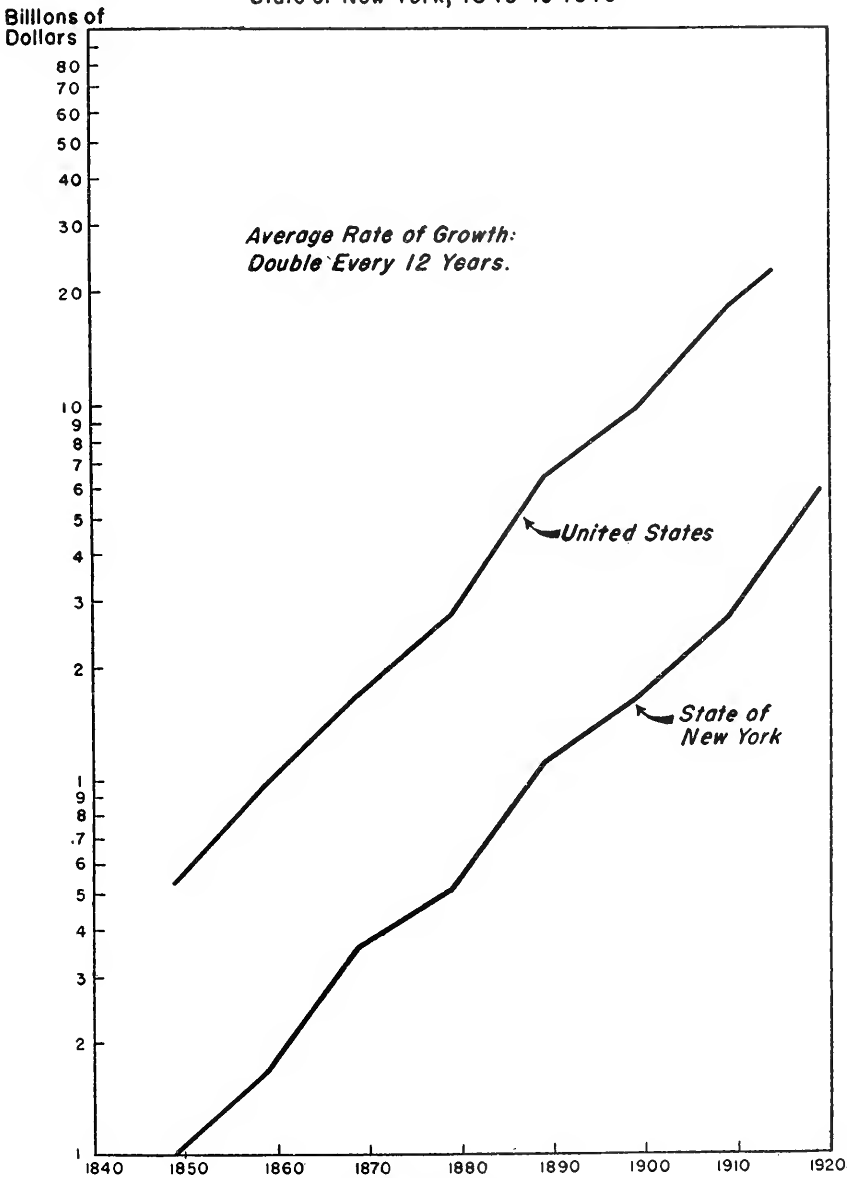
Year:	*Amount*	Year:	*Amount*
1865	0.6	1900	3.6
1870	0.7	1910	7.3
1880	1.1	1920	17.1
1890	2.0	1930	23.3

Source: Harold G. Moulton, Formation of Capital, Brookings Institution, Washington, 1935, pp. 194–195.

CHART V

CAPITAL INVESTED IN MANUFACTURING

United States, 1849 to 1914
State of New York, 1849 to 1919



Capital in billions

Years	For New York State	For United States
1849	0.1	0.53
1859	0.17	1.0
1869	0.36	1,7
1879	0.51	2.8
1889	1.13	6.5
1899	1.65	9.8
1909	2.78	18.4
1914	---	22.8
1919	6.01	

Source: United States Bureau of the Census.

(*d*) Capital investments, under normally functioning capitalistic system, must yield profit.

(*e*) Making up depreciation and obsolescence is not profit.

Taking all of the above we may summarize as follows: Capital wealth yields profit which, augmented by savings, yields more capital wealth. Then profit results from so increased capital to yield again more capital. In other words, we have compound profits. Mathematically, this means a geometric growth of capital wealth. Similar growth has occurred in other countries under normal functioning of the capitalistic system. An indication of this will be found in figures on rates of increase in production:[1]

Country	Period studied	Number of years required for production to double	Country	Period studied	Number of years required for production to double
United States	1909-27	11.5	Australia	1907-27	9.5
United Kingdom	1907-24	14.0	South Africa	1915-27	9.0
Canada	1911-26	12.0	France	1906-26	14.0

These are gain in terms of annual percentage increase in production as follows:

Country	Period	Annual percent increase of net value of production	Country	Period	Annual percent increase of net value of production
United States America	1909-27	6.8	Australia	1907-27	7.9
United Kingdom	1907-24	5.0	South Africa	1915-27	8.6
Canada	1911-26	6.4	France	1906-26	5.0

FORMATION OF CAPITAL AND ITS RELATION TO CONSUMER GOODS PRODUCTION

Now we must consider by what mechanism the capital wealth has managed to expand at this rapid rate under normally functioning capitalistic system. We must get the concept that total national income is equal to total value of production. Thus there cannot be lack of purchasing power to buy all goods produced nor can there be overproduction from point of view of lack of ability to buy. We can explain the above no better than by quoting from "America, Capacity to Consume," a Brookings Institution publication, page 137: "From the national standpoint, production and income are what may be called simultaneous equivalents. Production generates income and, measured in terms of money, the two are exactly equal; the net value of the parts distributed as wages, salaries, profits, rents, interest, dividends, and such undivided profits as are retained in a corporate business. The national income may, therefore, be defined as the money equivalent of the goods and services produced within a given period of time, or, stated another way, the goods and services equivalent of purchasing power disbursed in process of production."

Now we must get one more very fundamental and obvious concept. For goods and services to be created and consumed, two factors are essential:

[1] John M. Blair, Seeds of Destruction, Covici-Friede, New York, 1938, p. 13.

(*a*) Purchasing power in the hands of potential buyer or consumer.
(*b*) Need or desire must exist for those goods in the mind of the buyer or consumer who has the purchasing power.

Now let us take hypothetical case 1: Only consumer goods produced, purchasing power all among consumer group, no savings, no increase in reserves.

CASE 1

Production	Income Use	Goods Use
10 Units Consumer Goods	10 Units Consumer Purchasing Power	10 Units Consumer Goods

The result of this condition is obvious, but under a normally functioning capitalistic system could only arise at the depth of depression such as would be hard to conceive, and if every individual in the society received such meager income that he had to spend all for living expenses, or if he were to conserve some of it, would lend it to another to buy goods for consumption or for upkeep of his capital goods.

Now, let us take hypothetical case 2:

CASE 2

Production	Income Use	Goods Use
Old Industries Expansion 20 Units	Savings 20 Units	Capital Goods 20 Units
Consumer Goods 80 Units	Consumer Purchasing Power 80 Units	Consumer Goods 80 Units

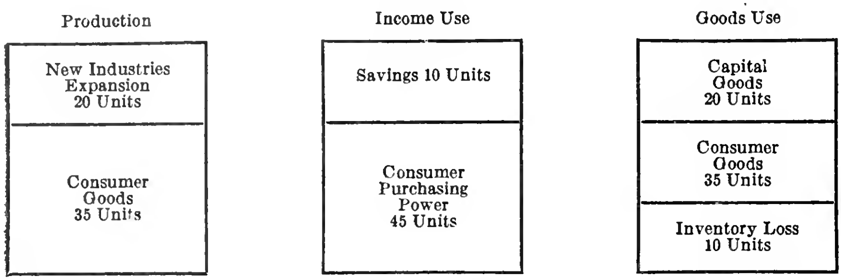
This condition could arise only if no technical developments took place, and substantially all productive capacity were being utilized so that capital would be in the frame of mind to visualize even greater consumer goods demand. It could not arise if the production were at much less than capacity. There could be no profits if industry were operating at much less than capacity and on a competitive basis. With no profits and excess capacity, capital could not be induced to further expand such industries. If profits were being made in spite of excessive capacity, then a non-competitive condition would exist and existing interests certainly would not still further overexpand their industry.

CASE 3

Production	Income Use	Goods Use
New Industry 5 Units	Savings 15 Units	Capital Goods 5 Units
Consumer Goods 50 Units	Consumer Purchasing Power 40 Units	Consumer Goods 40 Units
		Inventory Gain 10 Units

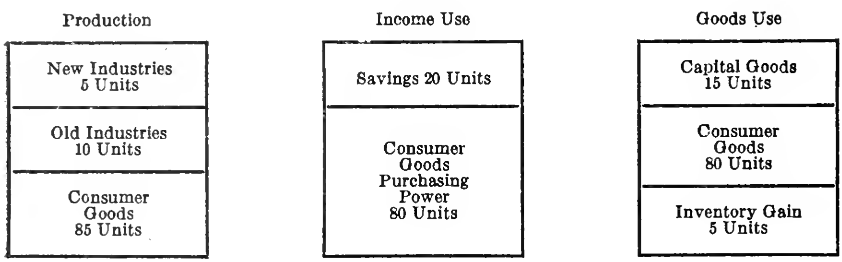
This represents a condition of going into a depression. Savings cannot be fully utilized in capital production. People who have these savings either have their consumer desires satisfied, or prefer security derived from savings to additional consumer goods, or cannot use consumer goods at all (insurance companies' reserves). However, in spite of the fact that capital cannot be invested in old industries, capital can and does find profitable employment in new industries and processes.

CASE 4



This condition represents recovery period. Use is greater than production because reserves are being transferred to consumer and inventories are falling.

CASE 5



This represents a condition of prosperity. The growth of new industries is enough to cause a consumer goods demand which in turn causes demand for capital for further expansion of old industries. However, in the above diagram savings are greater than production of capital, and thus seeds for next depression are sown in form of resulting consumer goods inventory gain.

From the above diagrams we may note the following:

(*a*) When production of capital goods is equal to savings, consumer purchasing power is equal to consumer goods production (cases 1 and 2).

(*b*) When production of capital goods is smaller than savings, overproduction of consumer goods is the result (cases 3 and 5).

(*c*) When production of capital goods is greater than savings, consumer goods demand becomes greater than consumer goods production (case 4).

Also we may conclude that increase in capital wealth occurs because physical opportunities for it exist and not because purchasing power is available for that purpose. On the other hand the consumer goods

expansion occurs because purchasing power becomes available for this purpose as the physical need for consumer goods growth always exists.[2]

DECLINE OF NORMAL CAPITALISTIC STATE

In the previous section we have shown that for normal functioning of the capitalistic system it is necessary for our capital wealth to increase in geometric proportion.

Thus development of capital wealth under the capitalistic system, like all things showing an ever increasing rate of growth, must finally grow to absurdity. This can happen in several ways:

Absurdity 1.

Capital wealth would reach such rate of increase that no labor or materials would be available for consumer goods. Under those conditions there would be no reason for capital wealth increase.

Asbsurdity 2.

Capital wealth would reach such magnitude that we would run out of raw material and even land.

Absurdity 3.

In the section on formation of capital we have discussed the fact that new capital wealth will take the form of expansion of old industries only when these are operating practically at capacity, but will expand in the form of new industries at any time. As a matter of fact, old industries expand only under the stimulus of growth of new industries as already discussed. Certainly under present conditions capital expansion is only possible in new industries and services (rural electrification, new electrical appliances, new chemical products, air conditioning, new alloys, television, etc.)

The capital wealth in 1929 was two hundred billion. If we proceeded with normal operation of our system, in 1941 it would have been four hundred billion and in 1953 eight hundred billion. Total capital expansion since the World War amounted to one hundred billion. During that period we saw development of the automobile industry, petroleum industry, road building, talking pictures, radio, and the major part of the chemical industry.

Now we are asking the engineer, chemist, and inventor to do twice as much in the next 12 years. They can not do it! And if they should, they must do twice as much again in the next 12 years, and so on. They certainly cannot do it! Before this they would find that absurdities 1 and 2 would nullify their efforts.

Thus it is absurdity number 3 which has brought us to the end of normal operation of the capitalistic system. The human mind cannot keep up with geometric growth of the capitalistic system.

INSTRUMENTS AND METHODS OF OUR ACCOUNTING SYSTEM

Conspicuous by its absence, as one of the necessary ingredients of production or distribution, is money. Money is basically only part of a complex accounting and bookkeeping system. The accounting methods used in the system are subject to change, and the various

[2] For sake of simplicity (which does not detract essentially from accuracy), the speculative price rises have not been considered. Under actual conditions in time of prosperity due to this factor, the savings are larger than capital wealth increase.

proposals for rectifying the functioning of our capitalistic state include proposals for change in accounting methods. Thus we are forced to discuss some of the instruments and methods of our accounting system.

(*1*) *Currency.*

By currency we shall mean the paper money and coins that is any national legal tender. This type of money has been described as medium of exchange, but its function is more than that.

(*a*) Currency type of money first of all is a measure of wealth; it is a common denominator of all wealth; it is a yardstick.

(*b*) Currency is one of the mediums of exchange largely used for minor transactions; personal checks, personal notes, securities, and bonds are mediums of exchange in other transactions.

(*c*) Currency in itself is a form of credit. It enables the seller to receive his reward in goods or services at any future date.

(*d*) Nationally, gold is only another commodity for which currency is a common denominator. The main function of gold is its use as an international currency. The relative change in the two common denominators has some effect on our foreign trade. However foreign trade plays a very unimportant economic part in a country which is practically self-sufficient.

(*2*) *Bank Deposits.*

Bank deposits are by far the largest source of our medium of exchange; they serve as the basis of our system of payment by check. They are also the basis of our commercial credit system. Thus it is interesting to inquire just how they are formed. The commonly held idea that bank deposits grow through savings is not true. Let us consider the following tables:

TABLE 1

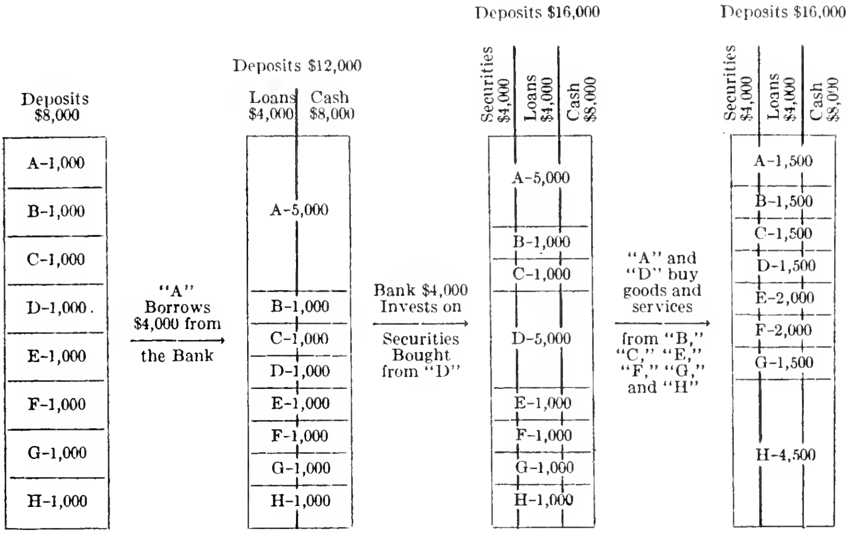
	Depositor "A" buys $700 goods → from other depositors		"A" sells the goods to → "B" and "C" for $800		"A" pays "B," "C," and "D" $100 each in wages and → they save all	
A-$1,000		A-300		A-1,100		A-800
B-1,000		B-1,100		B-700		B-800
C-1,000		C-1,100		C-700		C-800
D-1,000		D-1,100		D-1,100		D-1,200
E-1,000		E-1,100		E-1,100		E-1,100
F-1,000		F-1,100		F-1,100		F-1,100
G-1,000		G-1,100		G-1,100		G-1,100
H-1,000		H-1,100		H-1,100		H-1,100

Bank Deposits Stay Constant at Total of $8,000

From the above table we can see that regardless of whether depositors lose, save, spend, or profit, the total deposits remain the same. Bank's capital can be considered as one of the depositors, and variation of money in circulation under ordinary conditions is a small item. Therefore the above is not the mechanism of growth of bank deposits.

Now let us consider table 2:

TABLE 2



Thus, from these two sets of tables we can conclude that deposits grow from borrowings and investments and not from savings.

Unfortunately this process is irreversible. We see that as a result of the transactions in table 2 the average size of the deposit increases and in practice the number of deposits would have increased also. Now, if we consider depositor "H" as bank's own account, the bank could stand $4,500 in depreciation of its securities and loans and after that it would become insolvent.

Also we can see that only a part of the value of deposits is represented in cash. If we look back at table 1, it will be obvious that this matters little as far as ability of the depositors to withdraw. If no hoarding takes place, withdrawal for any purpose will cause reappearance of that amount as a deposit in some other account.

Federal bonds have exactly the same effect on the growth of bank deposits as any other form of investment. Thus, sale of Government bonds increases the bank deposits, increases the size of average bank account, or, in other words, certain of the depositors are very much richer, due to the outstanding national debts.

(3) Federal Internal Debts.

The subject of Federal internal debts has been more discussed than any other economic topic of our day, and probably no discussion has ever produced more muddled thinking. Federal debts are nothing more than a guaranty by the Federal Government that the bondholders will have interest and principal on these bonds paid by the people of the country.

Furthermore, Federal bonds represent transfer of excess purchasing power from the purchasers of the bonds to the group which lacks purchasing power.

Following table shows analyses of savings as function of income for year of 1929:

TABLE 3

NONFARM FAMILIES [1]

Income group	Number of families	Annual savings	Average savings per family
$0.000 to $5,000	19,496,000	$1,347,000	$69
$5,000 to $10,000	1,551,000	2,267,000	1,460
$10,000 to $100,000	607,000	5,004,000	8,240
$100,000 to $250,000	16,000	1,069,000	66,800
Over $250,000	8,000	4,047,000	506,000
FARM FAMILIES [2]			
0 to 10,000	5,796,000	$1,405,000	$240
Total	27,474,000	15,139,000	

[1] From Maurice Leven, Harold G. Moulton, and Clark Warburton, America's Capacity to Consume; Brookings Institution, Washington, 1934, pp. 260-261.
[2] Farm families with income of over 10,000 in non-farm table.

From the above table we can see that 2.3 percent of our families account for 68 percent of our national savings, and 90 percent account for less than 10 percent under normal conditions.

Let us now analyze how the various classes of population are affected.

(*a*) We will assume for the moment that the direct recipient of the Government expenditure is benefited, as he certainly is, in as far as he is saved from many physical and mental hardships.

(*b*) We have a second class which is neither the direct recipient of Government spending nor directly or indirectly owns any appreciable amount of Government bonds. Ninety percent compose the first two groups, and since the first class is still a minority, the second class is a majority of our population. This class gains indirectly from Government spending through increased business activity and increase in jobs. However, this is the class which may conceivably be called upon to pay taxes in the future in excess of temporary present benefits. We will show shortly that this supposition is not based on facts and will never occur to any such degree as could be any problem to this class.

(*c*) The third class are the bondholders or those who through their savings are indirect holders of these Federal Government bonds. This class is largely composed of the 2.3 percent who furnish 68 percent of the savings. Now we can consider the situation of this class as bondholders from three points of view:

What has this class lost or gained by buying these bonds?
What value have these bonds?
Can these bonds be redeemed by the Government?

When the normally functioning capitalistic system has reached the point where savings and profits could no longer find use for creation of capital goods, these savings and profits remained in the only form possible, and that is the consumer goods. The existence of these profits and savings in the form of consumer goods is simply

overproduction. A sufficient amount of Government bonds creates enough consumer demand to cause consumption of these surplus goods and prevents drop in price of these goods. This also prevents deflation of capital wealth by giving capital again an opportunity to operate at a profit.

We have shown that when banks invest in bonds their deposits rise. Therefore, the average bank account rises. To summarize, this group has preserved its existing capital assets and acquired additional reserves in form of Government bonds.

It is obvious that real wealth has not been increased by the above transactions, and that although the gains so far shown are real, they are what may be called "technical."

Now we must answer the question: Can these bonds be redeemed in real value? They can be redeemed in the only value that this group is interested in. Should it ever happen that the current profits and savings become insufficient for creation of capital goods needed, the Government is in a position to tax groups (*a*) and (*b*) to redeem the bonds and furnish the needed capital. This would amount to saying that so much of our resources were being used for production of consumer goods that taxation of consumer goods was necessary to make these resources available for capital expansion.

Since such rate of growth is very unlikely ever to occur, the only way the Government issues can be kept from growing indefinitely is by taxation of the very group which is buying the bonds.

(*d*) Now we shall consider the Government. Can the Government go "broke" by borrowing from its own people? Since, as shown by our analysis, the various groups of the population will not go "broke," the Government cannot go "broke" either.

The Government bonds are not only expense to the Government but also a source of income. This income may very readily be greater than the amount of interest paid:

A. We have shown that national savings increase by the amount of Government borrowing. These savings are part of increased income of the higher income groups and subject to high income tax. Thus the amount received by the Government is appreciably greater than the face value of the bonds.

B. As the direct beneficiaries of Government spending dispose of their benefits, these are subject to consumer taxes, and profit from these transactions is subject to income tax.

C. Since the Government bonds become additional savings, the average size of individual estates is increased in value. These additional savings are a continuous source of income to the Government, especially since they are largely part of the savings of the higher income groups. These additional savings produce extra income to the Government through additional inheritance and gift-tax receipts. Also, as these savings change hands through being spent, they are, in the process of change, part of the income of the new recipient of these savings and are subject to the income tax.

(*4*) *Taxes.*

Two kinds of taxes are in existence: Consumer taxes and taxes on savings or capital.

The first includes all "consumer" taxes such as sales tax, cigarette, liquor, amusement, gasoline taxes, etc. For our purposes we should

also include in this group all taxes which are easily passed on to consumer such as taxes on pay roll, processing, corporation, real estate, etc.

In the second group we may include personal income tax, gift tax, and inheritance tax.

The first group of taxes serves the purpose of cutting down the production of consumer goods.

The second group of taxes cuts down the amount of savings and makes less available for capital expansion.

The kind of taxes which should be in effect depends on whether the need is for capital goods or for the consumer goods. Of course, if need exists for both and the Government expenditures are necessarily large, as in case of war, it may be necessary to tax by all available methods.

Under present conditions when there is a lack of consumer purchasing power and Government is resorting to subsidization of the consumer goods demand, the consumer taxes are harmful, the Government kills a part of consumer purchasing power with these taxes, thus increasing unemployment and then returns the taxes to the consumer through the channel of relieving the unemployment it caused.

(5) *Savings.*

Reward for economic contributions is paid by society in two forms:

(1) Payment with goods and services.
(2) Promise to pay with goods and services at some future date.

The second method of payment results in savings. Thus savings represent a purchasing power to be used to satisfy needs which may arise in the future.

To clarify this point, let us take a case of an individual receiving $1,000 for his services. He spends $900 and saves $100. The hundred dollars saved becomes part of reserves of this individual for the purpose of giving him security. Some time in the future this individual expects to be able to receive for these savings food, clothing, or perhaps a trip to some vacation land. Thus his savings from the point of view of the rest of society are something it owes him. From the point of view of the rest of society these savings are a debt.

The ideal savings possess the following characteristics:

(1) They are non-perishable.
(2) They are negotiable.
(3) They yield a return.

Actually savings can take following forms:

(1) Currency.
(2) Capital goods:
  (*a*) Direct ownership.
  (*b*) Stocks and bonds.
(3) Loans:
  (*a*) Notes.
  (*b*) Mortgages.
  (*c*) Government bonds.
(4) Bank deposits.
(5) Consumer goods.

Bank deposits are indirect ownership of the other forms of savings.

Consumer goods are least desirable form of savings and are used for this purpose when other forms are not available. Another time when savings take the form of consumer goods is when, due to depression, producer of consumer goods finds himself without a suitable market for such goods.

The most desirable form of savings are Federal Government bonds. We have already fully discussed characteristics of these.

RECOMMENDATIONS FOR MODIFICATION OF OUR ECONOMIC SYSTEM THROUGH PROFIT SHARING ON NATIONAL SCALE

The analysis presented leads us to some of the obvious objectives which must be reached if we are to continue economic progress on a permanent basis under a democratic political system.

(*a*) The ability to utilize the existing productive capacity must not be allowed to remain dependent on further capital expansion, but must be governed by consumer needs.

(*b*) The reserves or savings produced by government and other indebtedness must give security to all and not be allowed to accumulate in a few hands. To preserve the democratic political system as well as the capitalistic economic system, our methods of attaining the objectives must—

- (*a*) Preserve profit as an incentive for practically all of our economic activities.
- (*b*) Provide necessary amount of security in form of reserves for our business and personal life.
- (*c*) Base such regulation as is necessary on law, and not on judicial powers delegated to executive bodies.
- (*d*) Provide for a stable economic system capable of a balanced budget.

Any modifications of our present system which will conform to general rules outlined will accomplish the purpose of giving us a capitalistic system workable under a democracy.

However, to prove that the task is capable of achievement, and, to put the discussion on a concrete basis we will make specific recommendations.

(*1*) *Taxes.*

The purpose of taxes should be two-fold.

(*a*) The taxes should defray the cost of the necessary government agencies.

(*b*) The taxes should prevent our capital wealth—wealth which will in all probability greatly increase—from concentrating in a few hands. By the latter we do not mean to prevent creation of millionaires, but to prevent a creation of a group comparable to Indian Maharajas.

Since we are especially concerned with promoting consumer purchasing power, all taxes on consumer goods and all taxes which might be passed on to the consumer must be eliminated. Thus, the only taxes that should be allowed to remain are:

(*a*) Income taxes without loopholes, and which would not exempt securities of any kind.

(*b*) Inheritance taxes without loopholes.

If the unforeseen should happen, and it should become necessary to expand capital goods at the expense of consumer goods we recommend but one consumer tax—a sales tax. Other taxes, such as liquor, tobacco, gambling and racing taxes, may have some social value, but no economic value. However, such other taxes as taxes on undistributed corporation profits and gift taxes may be necessary in order to make impossible the avoidance of payment of income and inheritance taxes.

Since all local taxes are directly or indirectly consumer taxes, they should be eliminated. To preserve local self government, without local consumer taxes, part of Federal tax revenue should be allotted to local government agencies on a basis of population and capital wealth.

(*2*) *Savings.*

The inevitable drop in the rate of growth of capital wealth, caused a lack of private investments for savings. The Government is forced to maintain outstanding bonds to provide the necessary investments in order to prevent these savings from taking the form of consumer goods.

As already discussed in section on "Capital Formation," lack of investments will automatically limit savings to the amount of investments available through curtailment of consumer goods production.

To avoid such condition we should—

(1) Provide necessary investments through use of Federal bonds.
(2) Limit amount of savings through—
- (*a*) Taxation.
- (*b*) Substituting wherever possible insurance for savings to provide security.

To accomplish the first part, we recommend a legal limit on uninvested bank funds. Idle bank funds in excess of the legal limit to be deposited only with a Federal central bank whose investments should consist of low interest bearing Federal bonds.

To limit the amounts of reserves necessary, we should make use of all possible insurance on a national scale. By reinsuring with the Government the contracts written by private insurance companies, the insurance business could be placed practically on a pay-as-you-go policy with elimination of the present huge insurance reserves. Of course, this would involve Federal guaranty of contracts.

Such insurance as old age pensions, unemployment insurance, and other forms of Government insurance should be put on a pay-as-you-go basis, since in such cases there is no way of Government maintaining any real reserve, as has already been discovered.

The private corporation reserves to be considered legally as reserves for depreciation of obsolescence, unforeseen losses, bad debts, or expansion should be allowed only in the form of non-interest-bearing Federal bonds. Cash reserves should be limited.

(*3*) *Maintaining Consumer Purchasing Power.*

The taxes suggested transfer the purchasing power to the Government from a group which has excess of it. Deposit with the Government of the reserves, as suggested, loans to the Government a purchasing power which is not needed by the depositor at the moment.

In the past the Government transferred such acquired purchasing power to the consumer through public works construction, soldiers' bonuses, C. C. C. camps, W. P. A. projects, "regular" Government expenditures, etc.

This method of distributing purchasing power has at least two serious faults:

(*a*) It keeps people on relief.

(*b*) It does not result in production of goods most desired or needed.

Consumer taxes under present conditions mean only so much more consumer purchasing power to be distributed through this unnatural channel.

There are at least two methods of transferring Government acquired purchasing power to consumer which would keep business moving in natural channels:

(*a*) By distributing Government income directly in form of graduated income bonus. Lower increments of income getting higher percentage bonus and higher increments of income getting lower percentage bonus. The total bonus, however, being larger, the larger the income. In other words, this plan would be a profit sharing on a national scale, unusable income being divided among all on the basis of higher percentage bonuses going to low income groups.

(*b*) By distributing Government income by subsidizing business. Distribution of Government income by this method would result in lower prices to consumer.

The first method, in our opinion, is more in keeping with principles underlying our present system and is more direct in its mechanism.

(*4*) *Government Debt.*

The national debt should be considered to serve only one purpose, to provide additional liquid reserves for individuals and corporations, and its size should be governed by the needs for such a reserve.

Fluctuations in the size of debt can only serve one other function, and that is of correcting a wrong estimate of tax receipts.

(*5*) *Balanced Budget.*

Once reserves in the form of Government bonds become sufficient to provide reasonable security to private capital as well as personal security, income and inheritance taxes must be depended upon to prevent further growth of these reserves.

To make balancing of the Federal Budget possible, two conditions must be fulfilled.

(*a*) Federal bonds must not be exempt from income, gift, or inheritance taxes.

(*b*) Total taxes collected directly or indirectly from such bonds must be more than interest paid on these bonds.

We have already pointed out that outstanding Federal debt increases the individual wealth, and thus is a source of Federal income through taxation. Furthermore, if successive increments of income are taxed at higher rate, each successive bond issue yields more in taxes.

Thus we can see that as the Federal debt increases we approach equilibrium between tax receipts from the national debt and the Government expenses in excess of other tax receipts.

The lower the interest rate and the higher the rate of taxation, the sooner this equilibrium is reached.

(6) *Functional Check.*

For purposes of comparing the functioning of "normal" capitalistic system and the proposed modified form, let us consider a state of affairs at some time in the future with the following figures:

National income, one hundred billion.
Capital wealth, two hundred fifty billion.
New industries being developed at a rate of six billion.
Old industries expanding at a rate of four billion.
Depreciation and obsolescence at a rate of twelve billion.

Now, let us look at table 4 and consider what would happen under "normally" functioning capitalistic system.

TABLE 4

Production	Source of Income	Change in Purchasing Power	Use
Capital 10 Billion Expansion	Dividends and Interest 15 Billion	Savings 20 Billion	Capital Goods 22 Billion
Upkeep of Old Industries 12 Billion	Depreciation Reserves 12 Billion	Maintenance 12 Billion	Consumer Goods 68 Billion
Consumer Goods 78 Billion	Salaries and Wages 73 Billion	Consumer Goods 68 Billion	Infentory Rise 10 Billion

With national income being one hundred billion, it would not be unreasonable to expect savings of twenty billion (we saved fifteen billion out of eighty in 1929). Thus only sixty-eight billion of consumer purchasing power is left to buy seventy-eight billion of consumer goods, leaving over-production of ten billion. Of course, curtailment of production would follow with accompanying unemployment, etc.

We have now a condition represented by table 5. Production and income fell from one hundred billion to seventy-five billion, but even under these conditions unused depreciation reserves, interest, dividends, and savings from consumer group might result in total savings of fifteen billion. This would result in consumer purchasing power of fifty billion to consume sixty billion of consumer goods, leaving additional over-production of ten billion.

TABLE 5

Production	Source of Income	Change in Purchasing Power	Use
New Industries 5 Billion	Dividends and Interest 10 Billion	Savings 15 Billion	Capital Goods 15 Billion
Upkeep of Old Industries 10 Billion	Depreciation Reserves 12 Billion	Maintenance 10 Billion	Consumer Goods 50 Billion
Consumer Goods 60 Billion	Salaries and Wages 53 Billion	Consumer Goods 50 Billion	Rise in Inventory 10 Billion

Now let us consider operation of the proposed modified capitalistic system under the same conditions.

Table 6 represents a condition where receipts from income, gift, and inheritance taxes are 10 billion. We will assume that distribution of that amount of purchasing power from primarily high income groups to primarily low income groups will be just enough to furnish the consumer purchasing power to consume all consumer goods. Table 6 is now self-explanatory, we enter next period with no rise in inventories and slightly larger capacity for further production.

TABLE 6

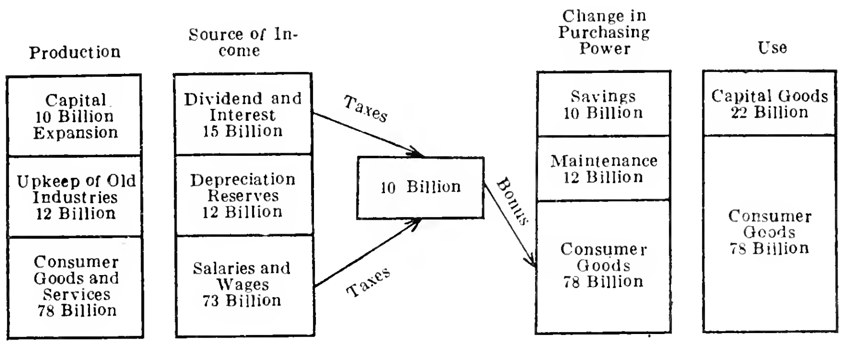


Table 7 assumes taxes of five billion when used to distribute purchasing power are insufficient and five billion of bonds are sold to provide additional purchasing power.

TABLE 7

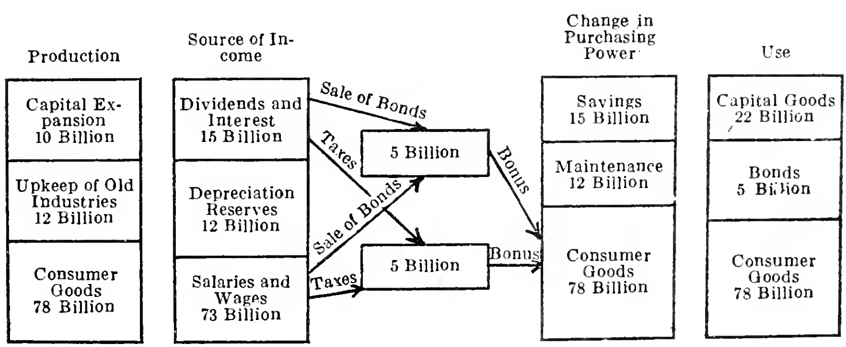


Table 8 assumes taxes of fifteen billion which are in excess of amount needed to maintain consumer purchasing power, and Government is able to retire five billion of Federal bonds.

TABLE 8

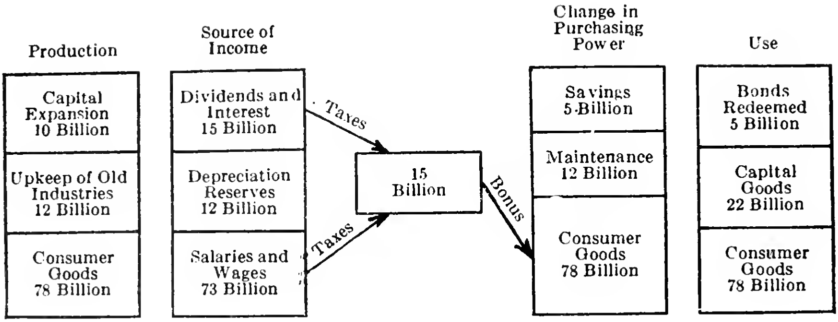
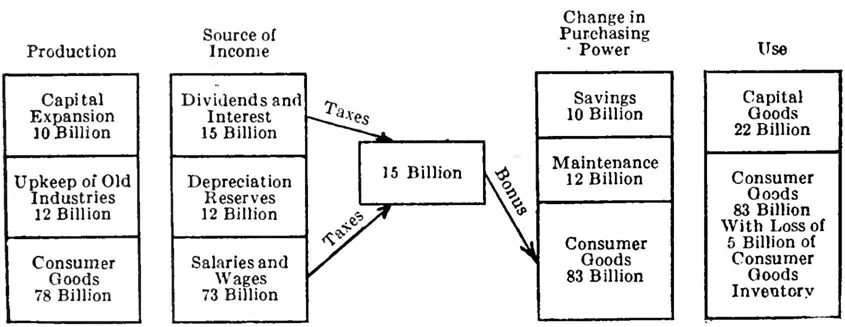


Table 9 indicates a condition where excessive fifteen billion tax is distributed to consumer which results in reduction of inventory of consumer goods by five billion. Of course, if such policy is continued inflation would result.

TABLE 9



The consideration of above tables indicates again that under "normal" capitalistic system we cannot maintain production consisting largely of consumer goods. Under proposed modified capitalistic system, production consisting largely of consumer goods can be maintained and a large degree of flexibility exists in the control mechanism.

The figures we have used in this discussion are for purposes of illustrating, but we have tried to keep them at least of right order of magnitude. This brings up the point that if we are really to control our economic behavior we must begin to think in much larger amounts than we have up to now.

(7) *Effect on Various Groups.*

(*a*) *Wage and salary group.*—The wage earner and salary group would obviously benefit by modification proposed through high real wages, abundance of work and labor scarcity.

(*b*) *Farm group.*—Farm group would benefit through better demand, especially for the higher priced agricultural products. Also undoubtedly the transfer of agricultural labor would occur on account of scarcity of labor in industrial fields.

(*c*) *Management group.*—Management will be able to devote itself to its logical function of providing quantity and quality. Under proposed modified capitalistic system, management will still have to fight to show all profit possible, but it would have a small chance of showing losses.

(*d*) *High income group.*—High income group would have the benefit of capital security, high social position, and high income moderated by high income taxes. However, this group will not become a closed self perpetuating group. High inheritance taxes will keep each succeeding generation fighting to prevent slipping out of the group and give a chance for new entries into the group.

(*e*) *Government.*—The proposed modified capitalistic system simplifies the operation and functioning of the Government. It is simple enough to be controlled by law and therefore capable of being operated under a democracy. Furthermore, it is a stable system capable of a balanced Federal budget.

8. Putting the Proposed System in Operation.

In order to put the proposed modified capitalistic system into operation, it is not necessary to change everything at once. As each feature is put into operation, additional benefits will occur, but one feature at a time can be adopted.

(*a*) We can begin by dropping direct and indirect consumer taxes, also make Federal funds available to local governments to eliminate local consumer taxes. This action would reduce the drain on consumer purchasing power reduce amount of relief needed, reduce the size of Government budgets, but will leave defiicits unchanged.

(*b*) We can eliminate leaks in the collection of inheritance and gift taxes and thus balance the Government budget and prevent dangerous growth of personal money power.

(*c*) We can begin to redistribute purchasing power through bonuses on incomes, with higher percentage bonus going to lower incomes, and eliminate Government relief and unemployment.

(*d*) We can reduce various reserves by re-insurance on National scale with Federal Government guarantee and reduce our national debt.

SUMMARY AND CONCLUSION

To summarize the main points:

A. Normal Capitalistic System.

(1) The functioning of normal capitalistic system includes a fatal prerequisite that capital wealth must double every 12 years.

(2) This leads normal capitalistic system to maldistribution of purchasing power.

(3) This fault leads to break down of the system through—

(*a*) Unemployment.
(*b*) Overproduction.
(*c*) Underconsumption.

B. Modified Capitalistic System.

The modified capitalistic system can rectify this fault by the following changes being made in our present system:

(1) Limiting accumulations of purchasing power by high income groups through income, gift, and inheritance taxes.

(2) Elimination of direct consumer taxes and taxes which can be easily passed on to consumer.

(3) Elimination of unnecessary insurance reserves.

(4) Direct re-distribution of purchasing power through national bonus system with high percentage bonus going to low income group.

The advantages to be gained are—

(1) Benefit to all groups—wage earner, farmer, management, capital, government.

(2) Capitalistic system with its individualism and profit incentive will be preserved.

(3) Political democracy is capable of handling the system.

(4) Economic functions of the Government will be simplified.

(5) Unemployment will be eliminated.

(6) National Budget will be balanced.

(7) Modifications are capable of gradual adoption.

It is of interest to analyze various proposals for modification of our system from the point of view of the theories discussed.

1. RECOVERY BY RETURNING TO NORMAL CAPITALISTIC STATE

There are still many people who feel that if we returned to what we called "normal" capitalistic state, we would resume the progress we were making up to 1929. As we have shown, this plan requires such rapid and continued expansion of capital goods that it now seems unbelievable that it could have continued until 1929, but it is not possible to say that it could not be resumed for another few years.

However, we must realize that nothing has been done since 1929, to prevent resumption of capital expansion. Certainly all technical economic factors necessary for such expansion were never more abundant. The only reason we have not seen this expansion take place is because the country at the moment is in need of consumer goods and in little need of new capital goods, and it is highly improbable that it will again need capital goods at any such rate as a normally functioning capitalistic state must produce.

The only other point that has been raised is the question of confidence and encouragement of capital.

2. RECOVERY THROUGH RETURN OF CONFIDENCE

The argument is being advanced that capital needs confidence to go on with capital expansion to pull us out of depression. We have already discussed the facts which prove the fallacy of this argument.

(*a*) Capital will not expand facilities which are already too great for present consumer demand.

(*b*) It is a physical and mental impossibility to continue to absorb sufficiently large amounts of capital by creating new industries. We estimated that $100,000,000,000 worth of these would have to be created in the next 12 years to keep the system functioning.

From a psychological point of view one thing that builds up a businessman's confidence is orders, and one thing that kills it is lack of orders. Orders will have to start where need for goods exists, with the consumer goods.

Nineteen hundred and thirty-six election results certainly could not be interpreted as victory for a group looking for recovery through re-

turn of confidence. But through Government spending consumer demand began to tax our productive capacity and "capital" showed its confidence in the future by overtaxing the capacity of our capital goods producing industries.

Nineteen hundred and thirty-eight election results showed that the "New Deal" was not as firmly entrenched as was believed. However, despite optimistic reports from the "confidence" group, when consumer confidence in the future by overtaxing the capacity of our capital-goods became discouraged.

Confidence may enable a man to jump a 6 foot fence, but no amount of confidence will enable him to jump a 2 story building, and that is about what we are asking capital to do through confidence.

3. RECOVERY BY PUMP PRIMING

The theory of recovery through "pump priming" is based on the idea that if we can bring consumer demand to the point where further capital expansion becomes necessary, the capitalistic system will resume the forward march as before depression.

However, as we have shown earlier the forward march can only be sustained as long as capital growth proceeds in geometric progression and that cannot be continued indefinitely. This is just what happened in 1937. When pump priming stopped, recovery stopped.

4. RECOVERY THROUGH CONTROLLED INFLATION

Inflation or rapidly rising prices can be caused only by having both the purchasing power and the need for goods greater than the supply of goods.

There is greater need for consumer goods than the existing supply, but the purchasing power, available for these goods, is insufficient.

If the purchasing power for consumer goods were increased above the available supply, inflation would occur. It does not matter how this condition is produced. Printing of money and its distribution to consumer, or Government spending based on Government borrowing, are equally effective. However, Government debt is a record of past spending and has nothing to do with inflation, since the resulting reserves are not in the hands of the consumer goods buyer.

In the case of capital goods, sufficient reserves have been built up to cause inflation, if the second factor, that of need for enormous amounts of capital goods, were present. Thus it is obvious that it is impossible to cause inflation by further increasing the purchasing power for capital goods.

Since it is impossible for us to produce enough consumer goods to satisfy consumer demand,[3] inflation could be caused by increasing the purchasing power of the consumer. We must realize, however, that if consumer purchasing power is increased through Government spending, only for a period, it will drop as soon as spending stops. Consumer purchasing power will dissipate itself through spending unless the source of this buying power is continuous.

Thus, if controlled inflation is to be achieved, continuous Government spending is necessary. The money spent in keeping up the

[3] Edwin G. Nourse, America's Capacity to Produce, Brookings Institution, Washington, 1934.

condition of controlled inflation will pile up as idle capital, creating a small tremendously wealthy group which will again make existence of democracy unlikely.

5. HIGHER WAGES

High real wages, of course, mean high standard of living, and how to achieve them is what we are trying to discover.

A. Rise in monetary wages produces beneficial economic effect only for a brief period because—

(1) It temporarily increases consumer purchasing power on account of ability to buy goods produced at lower wage level with new and higher wages.

(2) It causes a flurry of speculative buying in expectation of rise in prices.

6. SHORTER WORKING HOURS

Shorter working hours do not affect the basic trouble of maldistribution of purchasing power, although they may correct the social evil of working more hours than is healthy. For a moment shortening of the working hours may cause a speculative rise in production, due to rise in costs of production. Excessively short hours do definitely limit the capacity to produce.

7. NEW DEAL

"New Deal," besides being responsible for some excellent social reforms, has managed to keep us economically afloat. In view of the difficulties and lack of precedent for solving the problems encountered, we believe much credit is due to the "New Deal" group for the ground work laid toward building of a sounder economic system.

PART VI

A METHOD FOR CONTROLLING UNEMPLOYMENT AND INCREASING PHYSICAL PRODUCTION

by

STERNE MORSE

A METHOD FOR CONTROLLING UNEMPLOYMENT AND INCREASING PHYSICAL PRODUCTION

Sterne Morse

Our present economic system operates with profit, or the hope of it, as a motive power and in *no other way*. Economic Surpluses[1 2] poison and clog its action. It tends to slow up when they are present because such a Surplus makes the most profitable operation impossible. In self defense, the system endeavors to neutralize or destroy them. In general, such a possible Surplus of a commodity is converted into a real surplus of labor. But technological advance increasingly tends to produce such Surpluses. The only present remedy, which the system has, is to throw out of function sufficient of the productive equipment and labor which is available to reestablish the scarcity potential on which it works.

A nation at war, or with a war like economy, has what may be termed a two-component economy—one, the ordinary private economy, the second the purchasing of the Government. Since there are never enough materials to fight a great war actively, all surpluses are at once removed by Government purchasing. The Government always, in one way or another, sets up sufficient purchasing power so that it is able to purchase all available war materials and all services necessary for the prosecution of the war. All these are completely removed from the private market and consequently cannot compete in the latter for the available purchasing power in it. No clogging of the productive mechanism can therefore occur from the existence of economic Surpluses. In view of the great destruction of wealth in war, it has always been a puzzle to economists that more discomfort of the people has not occurred, at least where a blockade was not present. This was notably the case in the United States and in England[3] during the World War.

As regards the physical production of such an economy it is always very large. The physical production of Germany, according to League of Nations statistics, has been some 130 percent of her 1929 production for the last 3 years or more; that of the democracies in the same period has been of the order of 80 percent of their 1929 production. The ratio is 5 to 3.

As a schematic description, it is proposed that a two-component economy be constituted of this general type. In it will appear our private economy as it now is, together with a second economy or market, noncompetitive with the private economy. In this second

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[1] Terms used in special senses are capitalized as a reminder of the fact throughout this paper.

[2] Economic Surplus, that portion of a possible production, which if produced, will force the price below the point of maximization of profit.

[3] Sir Arthur Salter. Security, and can we regain it? Reynal and Hitchcock, New York, August 1939, pp. 58–59.

economy the function of the central organism will be reversed. Instead of being the only consumer, it will be the only producer. For this purpose we propose to set up a Government owned corporation which we shall call the Surplus, for the purpose of taking over all production, beyond that capable of being carried out by the private economy, that is, all production which would otherwise constitute an Economic Surplus.[4] Such production would be sold to consumers for a special form of purchasing power, additional to the purchasing power developed in the private economy, although our present money would be the only currency; the money purchasing power could only purchase goods produced in the private economy. Notwithstanding these limitations all production would be in the present plants, under the present supervision, with the present organization and skills, both for production and distribution. The Surplus would supply all the direct factors of production, materials, labor, power, and the like, for that portion of the production which could not be produced under the private economy. It would have an equivalent equity in the product. For example, if the private owners of a factory did not have private orders for the production of more than 80 percent of their possible production of a commodity, they would have orders in the Surplus Economy for an additional amount, perhaps for the remaining possible 20 percent.[5] If so, they could look to the Surplus to supply 20 percent of the materials for the manufacture, they paying for the other 80 percent. They would pay their labor force 80 percent of the pay roll, the Surplus paying the other 20 percent, not however in money. The Surplus would have an equity of 20 percent in the product.

Such operation, while giving the private operators of the business a better situation than that which they now have, in that today, when business decreases, direct expenses generally cannot be proportionately decreased, and permitting an organization to be kept together and the costs of labor turn-over to be kept at a minimum, would be very profitable to the Surplus, as profits are apt to increase faster than production, as maximum practical production is approached.

In order, however, to prevent competition of the products produced by it with those produced by private industry, the Surplus would not sell its products for money, but for a special form of instrument, constituting a general claim on goods produced by the Surplus, measured by their retail value in dollars. It would pay its salaries and wages in these claims, which we shall call Surplus Credits. Goods produced by the Surplus would have a retail value much larger than the amount of salaries and wages paid in Surplus Credits in their production and distribution. Accordingly, a series of Distributions of Surplus Credits would be made, *sufficient to insure that sufficient purchasing power would exist to absorb the goods produced by the Surplus.* Surplus Credits could be set up to the credit of individuals, corporations not for profit, and Government bodies, but not for partnerships or for other corporations.

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[4] Capitalization of a term in this paper denotes a restricted or special meaning as herein defined.

[5] Total production would not be set or guaranteed by the Surplus, but would depend on orders as today, but orders partially in the Surplus Economy. See below.

A retail store would sell its goods for money as now but would be ready to return to a customer what we shall call Discount Stamps, to any amount desired by the customer, a small fee in money, perhaps 5 percent, being charged for them.

The only way in which a possessor of Surplus Credits could realize on them would be by turning in Discount Stamps[6] to the authority which cared for his Surplus Credit account, which might be his bank, employer, or an office of the Surplus. When so turned in, he would receive an equal amount of money, and this amount would be debited against the account. He could only receive money in this way up to the value of his account.

In general, all goods possessed by any firm would be subject to a lien, this lien representing the equity of the Surplus in them. As regards a given firm, this lien would consist of two portions, a lien on the goods and services purchased by the firm, corresponding to the equity of the Surplus therein, and secondly an additional lien, due to the services contributed by the Surplus in the course of the operations of the firm. We shall call the formal evidence of the first a Goods Memorandum, and the formal evidence of the second, a Service Memorandum. The second would be an acknowledgment of obligation to the Surplus, in dollars, but without maturity or interest, being on exactly the basis of a bank or government currency note. Looked on as currency it would have the particular character of a check, and like a check would not be legal tender. If accepted by the bank of the maker, it would be accepted by the bank as the agent of the Surplus. Formally such action by the bank would set up an obligation of the maker to the bank and a corresponding obligation of the bank to the Surplus. Since such an obligation on each side would be without maturity, the liabilities under a number of them could be totalled and transferred, exactly as in the case of a bank currency. A Goods Memorandum would be in form an assumption of such a liability. It would in theory be an assumption by the buyer of a good or service of the entire liability of the seller to the Surplus, incurred in the production of the good or service. If the seller had bought raw materials he would usually have assumed a certain liability of the seller of the raw materials. This would have been totalled with whatever Service Memoranda he had made out in the course of the production of his product. The buyers of the goods would assume this liability in toto. Actually the situation would be precisely that existing in the production of goods today, in that the seller of goods or services totals his costs and expects to sell for at least the total of such costs. Under the proposed system his costs would be divided into two portions, his money costs and his Memorandum costs, which would be initiated and would remain separate. We thus obtain the necessary element of noncompetition between the two portions of our economy.

The amount of Service Memoranda which would be executed by a firm would be that portion of the Service Revenue[7] of a firm which

[6] During the period of initiation of the plan until all retailers were a part of it, the percent of stamps being returned would probably be limited to the amount which would give retailers using the plan a decisive competitive advantage over those who did not.

[7] The term "service revenue" here means the difference between the costs of goods and services bought *from other firms*, and the amount received for goods and services rendered to all customers, plus the net addition to inventory. It is therefore substantially the "value added by manufacture" in the case of a manufacturer, the mark up in the case of a trading firm.

would accrue to the Surplus. In theory it would be that portion of the Service Revenue of the firm to which the Surplus would be entitled by reason of its silent partnership in the business of the firm and to which it would be thus entitled on account of the underwriting by it of a portion of certain costs of production. The relation which Service Memoranda bore to total Service Revenue would determine the proportion to which the firm could expect the Surplus to undertake the payment of its salaries and wages. If a manufacturer, for example, in a given accounting period, sold goods in which the value added by manufacture was $100,000, his salaries and wages in the interval might be $55,000, an average figure for the last Census of Manufactures. If now he executed a Service Memorandum for $20,000, 20 percent of the "value added," he would be entitled to discount his salaries and wages $11,000, 20 percent of $55,000. He would also be under no cost for 20 percent of his costs for physical depreciation, depletion, taxes, insurance, and a few other costs.

It may be asked why he should sign an obligation for $20,000, in order to obtain these advantages. The answer is that *he* actually receives orders, not for goods to the value of the total sale value of the goods delivered, but to some less value. If, for example, in the above case, his material costs had been $40,000, and he had given $10,000 in Goods Memoranda in part payment for them, selling accordingly for a total of $140,000 of which $30,000 was in Goods Memoranda, he actually only received orders for $110,000 worth of goods, the Surplus really receiving the order for the other $30,000 worth. Orders which he receives, owing to the division of consumer purchasing power between money and Surplus Credits, will always be specific in the amounts ordered in the two portions of the total economy, as regards amounts of each. If the purchasing power in a certain town, available to buy consumers' goods is divided 80 percent and 20 percent, the retailers will be asked on the average for Discount Stamps to an amount, 20 percent of the total *retail* value of the goods purchased. This will be greater than the wholesale value of the same goods to the extent of the retailers' total mark up, or nearly so. As we have seen, this is their Service Revenue.

It is planned that the only way in which retailers may obtain Discount Stamps will be for them to pay off their Memorandum accounts in money. These accounts will amount to the sum total of their Goods and Service Memoranda. They will obtain this money, of course, from the money paid by their customers for goods really owned by the Surplus.

It will be observed that these Memoranda accounts will have much the characteristics of money balances, but with a reversed credit. It will also be seen that it will be necessary at each stage of commerce, that a seller preserve an adequate Memorandum account, just as today a buyer is required to preserve adequate money balances to buy the goods which he may require. As far as he could, an operator would endeavor to buy with as much Memorandum and as little money as possible, in order to bring his Service Memoranda to as low amounts as possible. The larger his Service Memoranda, the more his particular portion of the total economy passes for the moment from his hands to that of the Surplus. His profits are diminished accordingly.

Orders to him would however nearly always carry the provision that a certain amount of the payment should be in Memoranda. If he did not assent to as large a Memorandum as the buyer desired to give he would probably lose the business if the buyer could deal anywhere else on the terms which he wanted. In the projected economy, prices would probably remain much more stable than today and present haggling on prices would be very largely transferred to haggling on the percentage of Memoranda to be accepted. Present price competition would be altered to a competition both on prices and on the percentage of Memoranda. There would be a new degree of freedom looking at the matter mathematically.

We should find that business firms would carry two bank accounts, one in money, as today, the other a Memorandum account in which they would be debited the amount of the account instead of being credited as with their money account. A business transaction would involve the payment of a sum of money, and the coincident assumption of an obligation of the seller to the Surplus, the Goods Memorandum. The latter, as in the case of the check in payment of the money portion would be expressed in dollars. Presumably both would be combined in one instrument. Deposit of it by the seller in his bank would increase his money account and decrease his Memorandum account the respective amounts stated. The combined instrument would be cleared as now, each successive possessor being similarly credited in the two separate senses, unto its final payment by the buyer's bank. His money account would be debited and the amount of his Memorandum account increased (i. e., he would be debited) the amount of the Memorandum. In terms of absolute figures, it would be as though a deposit had been made in the Memorandum account of the buyer, a *negative* account in a *negative* balance. The continual separation of these two types of debiting and crediting, in all financial transactions involving the transfer of and payment for, goods and services, would preserve the underlying necessary absence of competition between the two portions of the total economy, while making it unnecessary for the Surplus to take cognizance of any individual transaction.

It is obvious that such a mechanism will require more clerical work by the banks. But such work will not be doubled. While a double set of balances will be required, the process of looking up an account and other such work would be done with respect to both accounts of a given customer at the same time. The process of issuing evidences of Surplus Credits, if performed through the bank of an employer, would be identical to the issuance of wage and salary checks; the drawing against them, by the presentation of Discount Stamps, much like that of paying checks, with a further detail. All in all, if banks are allowed to prorate their salaries and wages according to the amounts of Memorandum accounts which they carry, or alternatively according to the Memorandum credits cleared (corresponding to debits in checking accounts), they will presumably be sufficiently recompensed for the extra work which they will be called on to do. If, for example, a bank debited money items amounting to $800,000 to the accounts of its customers in a given wage interval, and in the same interval credited items amounting to $200,000 to its customers' Memorandum

accounts, it could pay its wages and salaries 80 percent in money and 20 percent in Surplus Credits. The exact basis on which this adjustment might be made might vary from this in any equitable way but the principle is clear.

It is interesting to consider what really happens in such a mechanism with change in a firm's Memorandum account. This account is in theory a statement of a lien of the Surplus on the inventory of the firm, and a Memorandum offered to it in payment of goods or services an assumption by the buyer of a part of this lien. This lien was initiated when the firm assumed such a lien on the materials which it bought. It was increased when the firm allowed the Surplus to act as a silent partner in the furnishing of the service, for which the Service Revenue of the firm is the reward. It was extinguished (as regards these particular goods), when the buyer of them assumed the total lien, the Goods Memorandum given in part payment being the evidence of this assumption.

Such a Memorandum account would be initiated, whether in the case of a new firm, after the system was in operation, or in the case of the commencement of the system, by a firm buying for the moment more goods than it expected to sell, that is, increasing its inventory and paying for the increase with Goods Memoranda, also usually by working up such goods into final form, and executing Service Memoranda whereby the Surplus undertook a proper share of the costs of fabrication. It might do either or both and the increase in its inventory might be in raw materials or in finished goods or both.

A firm would never be interested in decreasing the amount of Goods Memoranda received below the amount given for the goods and services which it bought. Its most favorable position in this regard would be when it was able to buy for a considerable proportion of Memoranda and to sell for a purchase price which was no larger in Memoranda than the amount of the latter given. In such a case its goods would be relatively salable, since a small proportion of Memoranda would be accepted, but no Service Memoranda would have to be given to balance the Memorandum account. The Surplus would not share in the profits of the business. If, however, the total capacity of the productive equipment were not being used, it would always be to the advantage of the firm to broaden its market by accepting larger Memoranda and executing a Service Memorandum. A portion of the increased Service Revenue would be in the private economy.

While it would be wise for a firm to have a Memorandum account of sufficient size for working purposes, it would not usually be wise to make it unduly large. Such an account would represent increased inventory, over what would be the situation when no such account existed. Accordingly the firm would be justified in decreasing its money inventory to at least a part of its Memorandum account. From the accounting standpoint, the total inventory would in part be paid for with money, in part held against a liability to the Surplus through the banks. For a given total output, a lesser working capital would accordingly be necessary. Since, however, the ownership of stocks would be wholly in the private operator, he would have the same

interest in preventing their deterioration or obsolescence which he now has. His obligation would be one measured in money

Tracing the responsibilities involved, between the Surplus, the banks, and their customers, they would be precisely like those set up by money balances but reversed. When a man deposits a $100 bill in a bank, he transfers an obligation of the Government to him, to the bank. He accepts a similar obligation of the bank to him. The same, mediately, is the case when he deposits a check. The bank looks to the Government, he looks to the bank. Each obligation continues until demand is made for its discharge. In the case of Memorandum accounts, the Surplus would look to the banks, the banks to their customers. Both individual firms and banks could transfer such obligations among themselves. Such transfers would, however, only affect Memorandum accounts. Whenever a firm desired to discharge such an obligation in money, it would have to do so through the Surplus. It would receive a Satisfaction [8] for such a money payment, together with an equivalent amount in Discount Stamps. It would deposit the former to the credit of its Memorandum account.

Such transfers of Memorandum obligations would require the same faith in the ability of the drawer of the instrument to perform, as would be necessary in the case of the coincident transfers of money by check. As regards the obligation of the customer of a bank to the bank on a Memorandum account, he would always have a money balance larger than the Memorandum account. In the case of a firm in active business, the account would always be tending to vanish and would have to be increased by the making of Service Memoranda. The problem of such accounts becoming so large as to force the bank to take a risk would hardly ever arise. It would be proper for a bank to inquire into the reasons for unduly large Memorandum accounts in comparison with the money accounts of the same customers. It would usually be due to large inventories. As the latter were built up, money balances would fall and Memorandum accounts rise, and conversely. The remedy would, of course, be to decrease the amount of inventory. Actually, the situation would not seem to be very different from that where a bank lends money today to a customer to permit him to increase his inventory in a way in which he otherwise would be unable to do. If the Memorandum account exceeded the money account, the bank would be guided by similar considerations to the above situation. It might be proper to specify that the Memorandum account should never exceed the money account. Under such an arrangement, the firm would have to increase its money account, by borrowing from the bank in the usual way, to the point where the Memorandum account was the smaller. This appears to be an unsatisfactory solution, as it requires use of the firm's credit to aid the Surplus Economy. On the other hand, such inventories would be the unquestioned property of the firm, and it would profit or lose from changes in the value of them. Some method of hypothecating a portion of such inventories with the Surplus, thus removing the bank's responsibility in the matter, may be the solution of choice.

[8] Satisfaction: A release of obligations under Memoranda. From a banking point of view, essentially a Memorandum of the Surplus.

A bank's relationships with the Surplus would be of several types. The Surplus would always be a heavy money depositor, owing to the fact of Memoranda being constantly paid off in money. The total of such deposits would not tend to increase, as these funds would tend to flow back to the consumers where they came from, in the redemption of Discount Stamps and debiting of Surplus Credits. Additionally, the Surplus would have large balances in money derived from the sale of goods in foreign trade under a special mechanism later to be described. The banks would act as agents of the Surplus in receiving Service Memoranda and in setting up the latter in Memorandum accounts. All such accounts would start with such Service Memoranda, and Goods Memoranda would simply be assumptions of the responsibilities of the makers of such Service Memoranda. It follows that the total Service Revenue of the country would always be larger than the total amount of Memorandum accounts. The banks, however, as above noted, would be wholly responsible to the Surplus for the total amount of their Memorandum accounts. In theory and in practice, the amount of the Memorandum account of a firm would represent an increment to the amount of its inventory, which would not exist if our system did not exist. It is, therefore, proper to specify that the Memorandum account of a firm would be a prior liability on its current physical assets. In case of receivership or bankruptcy of a firm, its current assets, if sold en masse, could be sold for a sum including a Memorandum to the extent of the Memorandum account of the bankrupt firm plus whatever amount of money was considered to be a fair price. If sold at retail, the money received would first go to setting up a fund sufficient to extinguish the Memorandum account. As Discount Stamps were demanded by the retail customers, money would be taken from this fund to pay off the Memorandum account of the bankrupt firm and Stamps furnished to the receiver to the same amount. Any money received by the receiver after the fund was constituted would go to the creditors of the firm on the money accounts owed them by it.

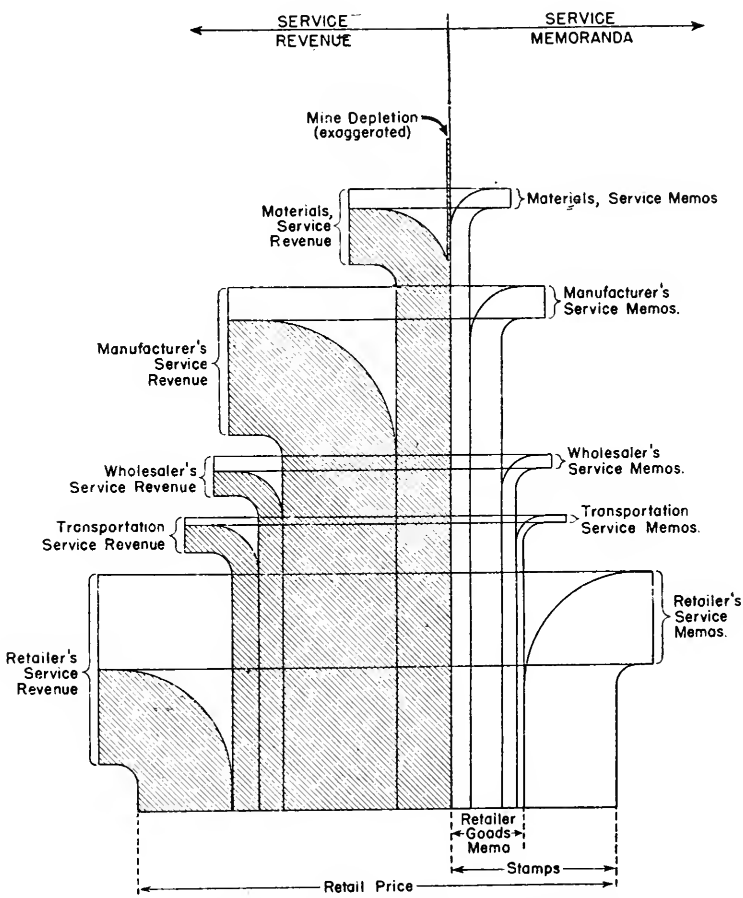
It will have been observed that under such a system we would have, as today, an increasing value in goods and services as they were elaborated on until they reached the final consumer. At each transfer, however, this value would be represented, not by a single money payment, as today, but by the sum of a payment in money and an assumption of obligation to the Surplus, also measured in money units of value. In general, both elements would increase from transaction to transaction, but at entirely independent rates, depending on the amounts of the Service Memoranda, and for that part of the Service Revenue of each firm over and above the amount of Service Memoranda which it executed. We might represent this state of affairs by the diagram in Chart I. The resemblance to two parallel watercourses, where each tributary of the one watercourse is represented by a tributary of the other, is obvious. At each point the cross section of the main stream is the total value of the goods and services so far contributed, while that of the portion of the stream coming from each side is the portion in one or the other economy.

In each portion of the economy but especially in the Surplus Economy the amount of salaries and wages issued will be less than

the retail value of the goods or service produced. The same is true of Producers' goods. The result would be that if this situation were not adjusted for the amount of wage and salary Surplus Credits issued would not be enough to extinguish the total amount of Memoranda issued in the production of consumers' goods produced in a given interval. Moreover producers' goods would in general never be purchased by Surplus Credits. It is necessary therefore, that first consumer purchasing power in the Surplus Economy be supplemented by an additional purchasing power to that afforded by wage and salary

Chart I

SCHEMATIC PRICE MAKEUP OF A GOOD SOLD AT RETAIL



Surplus Credits. As above briefly noted it is planned that this should be done by the issuance of additional Surplus Credits in a way which we shall term the Consumers' Distribution. Just how this Distribution should me made is a matter of sociological interest rather than of economic interest. We shall, however, assume that such a distribution would be made on a per capita basis. The only requirement from

the economic point of view would be that such Credits be expended for consumers' goods and services, in the main. It is, however, believed that the best sociological basis would be a per capita distribution, or perhaps a large proportion distributed in this way, and a smaller portion as a dividend on salary and wage Credits already issued. As unemployment was taken up to a larger and larger degree by the operations of the Surplus, it would seem proper to increase the proportion of the Distribution, allotted in the latter way. It is thought that for every dollar of Surplus Credits distributed in this way, from two to three dollars, and perhaps more, would be issued in salary and wage Surplus Credits. It is not important what the actual proportion would be, but it is important to realize that a proportion would exist, and that, therefore, the total amount of salary and wage Surplus Credits issued could be controlled by the amount of Credits distributed in the Consumers' Distribution. We might, however, venture on an estimate. It is thought that when the system was in full operation, the total national income in 1929 prices might be around 150 billions of which perhaps 90 might be in money, leaving 60 billions as the income in the Surplus Economy. This would mean that the return to capital would be as large or larger than it was in 1929. It would mean perhaps a doubling of the income of the lower income groups.

The total amount Distributed would perhaps be of the order of 15 to 20 billions of Surplus Credits and of Satisfactions issued in additional Distributions the latter for the purpose of balancing the productive capacity for producers' goods against the amounts available to purchase such goods.

It may be remarked that the Consumers' Distribution would not be charity any more than the dividends of corporations are charity. It would be made for a set economic purpose, namely to insure that Economic Surpluses would not develop in the Surplus Economy. If they did not appear in it they could not appear in the private economy, owing to the free variation in volume between the two economies.

As noted, we have a method of controlling the total amount of Surplus production and consequently the total production in this way. We have accordingly the full power of steadily reducing the amount of unemployment by increasing the amount of the Consumers' Distribution until it has been brought to any amount deemed to be desirable. If it (the Distribution) is increased to an undesirable degree, production will begin to lag behind the total amount of national income, and prices will rise. Since, however, the money income of consumers would not be increased in this process, a lower amount of goods would be sold in the private portion of the economy and the income to capital would be diminished. At first thought, this power of what would be in reality unfairness to the owners of capital might be dreaded. It might be thought that by it the have nots and the improvident might victimize the provident and the prudent. But we may well expect that the fact that the income of the low income groups might very possibly be doubled will result in these groups becoming small holders of capital and of securities to a vastly greater extent than is today possible. If this should be the case a large group politically would arise not at present in existence, which would be highly concerned in the preservation of the rights of capital. This

group would oppose an undue amount of consumer Distribution, as soon as the elements of causation were appreciated by it.

We would accordingly expect that the best administrative procedure would be to increase the total amount of Distributions to such a degree as would permit coincident increase of production, but to stop when such increase in production no longer occurred as a result. The "hard core" of physically or psychically unemployables should be left unemployed and can be taken care of by some form of work relief similar to present methods but, of course, on a vastly smaller scale.

The fact that large "profits" could confidently be expected by the Surplus would make it possible for the system to be initiated purely on a voluntary basis, no compulsions but economic ones being relied on to force all business elements into the system. The system of the Surplus would be initiated by a Distribution of Surplus Credits, the Consumers' Distribution of which we have been speaking. Since these Credits could only be utilized by turning in of Discount Stamps, buying pressure would immediately arise seeking to buy goods with which Discount Stamps could be obtained. Initially, retailers, wishing to enter the system would be permitted to limit the amount of Stamps which they would give back to a considerable degree, perhaps to 20 percent or so. In the eyes of the customers of such stores, even such a return of Stamps would amount to a 20 percent discount of the price, and they would tend to patronize such stores to the exclusion of stores refusing to enter the system. The pressure would be sufficient to force all retailers into the system in a very short time. Retailers in the system would exert the same sort of pressure on *their* sources of supply. Every dollar which they could pay in the form of a goods Memorandum would be one less dollar which they would have to give as a Service Memorandum. The smaller they could make the latter, the larger would be the proportion of the profits of their own business which they would be able to keep for themselves. The smaller ones might not be quite so insistent in this matter as the larger, as it would make comparatively little difference to the small retailer whether his drawing account was in money or in Surplus Credits. This would confer a certain advantage on small enterprises of all kinds, which is probably a desirable thing.

It is to be especially noted that all purchases made for Surplus Credits, that is, all purchases for which Discount Stamps were demanded to be returned would be *in addition* to purchases which would have been made, if our system were not in operation. Perhaps a slight qualification of this statement should be made. It is true that almost undoubtedly savings would be larger by the lower income groups than is the case today, even at times of greatest prosperity. These savings would be in money. On the other hand, the greater security of the profits of the private portion of the economy and the fact that wages would be relatively high would cause the rate of private investment both to be greater than today and to vary less. A mechanism later to be described would increase this tendency, it is hoped. It should be emphatically stated—nothing in the plan, as far as can be determined, would tend to make proper business enterprise any less profitable than now. It is true that it is believed that defenses against monopolistic practices would be set up of a very powerful nature which do not at present exist. They will later be spoken of.

Let us return for a moment to an inspection of Chart I. We have just seen that the entire flow of value representing the Surplus Economy is additional to that which would have occurred if our system had not been in operation. Actually the whole flow will be determined by the cross-section of our purchasing power at the base. Rather than a water course or two water courses, our better simile is the part of a tree above ground, or two such trees. That is the whole flow of nutritive substances in our tree toward the roots is determined by the volume of other nutritive substances away from the roots. Starting with our total purchasing power, it flows back from producer to producer, at each point buying the services of the producer and so contributing to him his Service Revenue. If, as we proposed, we divide this purchasing power into two streams, we must of necessity divide our total Service Revenues similarly. In individual cases, the division may be different from the proportion of the two total streams of purchasing power, but the total of the parts cannot be different from the whole.

Faced therefore with such a demand for Stamps, the retailer would find an increase in business substantially equal to the demand for Stamps, his cash receipts being proportionally larger. To obtain the Stamps he would generally find it necessary to execute Service Memoranda, in order to make the increase in his Memorandum account in a given period, equal to the amount of Stamps demanded from him in that period. This would permit him to pay part of his wages and certain other expenses in Surplus Credits, or receive Satisfactions permitting him to pay in Memoranda. He would also probably at once increase his total orders, offering Memoranda in payment for the increase. His money payments to his sources of supply would not be lower, as the money income in the town would not be less than before, except for some increase in saving. He would also build up his inventories, again paying for the increase in Memoranda, and this would give him what might be termed a Memorandum account of working size. Similarly the wholesaler, faced with the offers of Memoranda from his customers, would find it necessary to establish a Memorandum account in the same way, against which they could be drawn, or, more properly, to which they could be credited. This he would do in part by executing Service Memoranda, in part by giving Goods Memoranda to his sources of supply, again mainly in payment for *increases* in orders. The flow of money to him would not be appreciably lessened. All the way through each firm would find it necessary to increase their pay rolls, such increase being mostly or wholly in Surplus Credits. All such Credits issued would increase the total market in the Surplus Economy but would not decrease the market in the private economy.

It might, at first thought, be assumed that the very considerable addition to the total purchasing power afforded by the increased volume of purchasing power, particularly that furnished by the Consumers' Distribution, would cause a large increase in prices. This would, of course, be the case if such an increase in purchasing power were made in money. We have an interesting illustration of such a mechanism, almost pure enough in its characteristics to be of pure experimental value, in the phenomena which occurred on the payment of the Soldiers' bonus in 1936. There was seen an addition to national income several times the size of the Bonus distribution. There was, however, so great a rise in prices as probably to make certain the slump in the

latter part of 1937. There was also, of course, the addition to the national debt with the consequent worsening of the way in which the national income in the future would of necessity be divided. In the case of the outlined mechanism, however, we could rest assured that such a rise of prices could not permanently occur. In fact, there is considerable reason for believing that the course of prices might be in the opposite direction. This is because the entire determination of prices would be by the private economy. While the actual payment of money to individuals would not be less under our plan than before, expenditures by them for consumers' goods might well be somewhat less, due to the increased saving. More or less fall in prices might therefore be expected. Private expenditure in producers' goods might, however, rise correspondingly.

So far we have suggested no way in which the producers' goods industries would be maintained at full production. This would be done by a series of what we shall call Industrial Distributions, together with the obligation of the Surplus to bear its fair share of the physical depreciation of the productive facilities of firms of which it was the silent partner. The same proportion which has been used above, namely, the proportion between total Service Memoranda executed by a firm in a given period and the Service Revenue in the same period, which it is convenient to call the Operating Discount, would be used to determine the extent to which the Surplus would be liable for the physical depreciation of the physical assets of the firm in the same period. Assuming a given business to have set up a depreciation fund of $100,000 in the period in question, and assuming that its Operating Discount was 15 percent in the period, it would only have to lay aside $85,000. As it made replacement purchases with this fund, it would be entitled to give 15 percent of the purchase price of the producers' goods bought in Goods Memoranda, receiving an equal amount of Satisfactions from the Surplus when the purchases had been made.

The first Industrial Distribution would be made in those cases where it would be primarily to the advantage of the Surplus Economy that increases in the productive facilities of a given firm should be made. Suppose, for example, that a given producer was in the fortunate position of being able to sell his entire production for so small a proportion of Goods Memoranda as to make it unnecessary for him to execute any Service Memoranda at all. Assume him unable to fill all the orders for his product. He would of course select those orders carrying Memoranda of the lowest proportions. Under such circumstances he would be in line for an offer of an award under the first Industrial Distribution to permit him to increase his plant. If he accepted it, which he would be under no obligation to do, but which would nearly always be greatly to his advantage to do, he would put in the new equipment, paying for the latter wholly or in part, in Memoranda. He would then be given Satisfactions to the amount awarded, but would be required to execute in return what we shall call Surplus Bonds. These would be similar to Memoranda in that they would have no maturity and carry no interest. They would be an evidence, however, of a lien held by the Surplus on the productive assets of the firm. No effort would ever be made by the Surplus to realize on this lien, except when the business was wound up. It would then become a first charge on the capital assets of the firm. But the proportion which the amount of such Surplus Bonds bore to the book

value of the productive assets of the firm would determine what we shall call the Equitable Discount. This would be a sort of normal figure for the Operating Discount. It would of course be zero when no such Bonds were outstanding. In such case, the firm would be entitled, in case orders had to be refused, to select those orders tending to make the Operating Discount as near zero as possible, as in the case of our fortunate producer instanced above. If, on the other hand, the Equitable Discount was a positive figure, orders would have to be accepted which brought the Operating Discount as near to the Equitable Discount as possible. The choice would only have to be made, of course, if the firm was forced to reject certain orders on account of being in full production. Unless this was the case, the firm might have an Operating Discount above or below the Equitable Discount. In the latter case the profit on the private capital invested would be apt to be very high, as it would correspond to the condition today, when a firm is operating above 100 percent capacity, but without the extra production costs which such very large proportions of the maximum production are apt to entail.

We might here briefly consider the question of monopoly, exercised in the predatory way; the monopolist has a product which is necessary, he limits production to a large degree, and exacts an exorbitant price. He is intrenched, in one way or another, to prevent other producers from coming into the field. He refuses to accept Memoranda of sufficient size to cause his Operating Discount to be more than zero. Under such circumstances the Surplus would offer awards from this Distribution to other capital, to a sufficient degree to make it attractive to enter the field against the monopolist. It is probable that it would be advisable to modify the patent laws in the direction of the English "Licenses of Right" system, by which anyone would be permitted to take out patent licenses under a royalty set by the Commissioner of Patents. Such an offer of award could be made sufficiently attractive to make capital always willing to take the chance. Suppose, for example, that an award of this sort should be offered, such that the amount of private capital, which would have to be put in, would be only 25 percent of the whole. The Equitable Discount of the new firm would be 75 percent. But the Operating Discount might be only 30 percent. In this case the new firm would be using in its private production capital assets amounting to 70/25 percent or 280 percent of the private capital in the enterprise. If its operation were profitable at all it would be very profitable to the owners of the private capital. Such a procedure would not usually be necessary as such awards would be first offered to the monopolist. The possibility of it would usually induce him to avail himself of the award. If he took the award and still exacted prices which were too high, he would be offered more and more productive facilities until a large part of his business was in the Surplus Economy.

It will be noted that such procedures, while they would be very successful against a monopoly in which exorbitant prices were exacted, would not be effective or harmful against a monopoly which brought the price of its product down to a proper figure. Such a monopoly would always accept an award under this Distribution if offered. If the award were injudicious, all the facilities might not be used. It would not pay any other firm to enter the field

unless they have some real productive advantage over the monopolist.

Taking up now the second Industrial Distribution, it would be junior, both the necessities for the makeup of physical depreciation and to the first Industrial Distribution. The sum of all three categories would be dependent on the unused productive capacity of the producers of producers' goods. As regards the capacity for production of the latter, the same procedures would be used, if it was felt that larger capacity were necessary.

The second Industrial Distribution would be awarded under the same conditions of setting up of liens and of Equitable Discounts as the first. The initiative, however, would lie with the private producer. If he wished to improve his plant, as, for example, by the installation of labor saving machinery or a new process, he could apply for as large an award as he wished, choice lying absolutely with the planning division of the Surplus. This choice and that under the first Distribution would in fact be the chief central planning agency of the national economy. It is to be emphasized that private choice would not in any way be affected by the choice of awards. On the contrary awards would never be made unless the planning office was convinced that (1) the improvement was nationally desirable; (2) private capital was not available to carry it out; (3) idle equipment capable of furnishing the improvement was or would be available. Various other considerations would, of course, be important. They would include the state of the labor market. If shortage of labor was apparent, awards for labor saving machinery would be favored. Processes favoring economy in the use of national resources would be favored and in the present distressed state of the world, facilities for the production of material for national defense.

A firm could at any time decrease the amount of Surplus Bonds outstanding against its assets, by executing what we may term a Bond Memorandum, similar to a Service Memorandum but not considered in the calculation of the Operating Discount. Its only reason for doing this would be to reduce the amount of the Equitable Discount. This it might well wish to do at a time of profitable operation when it was operating at, or close to, capacity. The process would be essentially similar to the provision of new facilities today, except that the facilities would already be in place and their necessity apparent. The funds to do so would be provided as today from earnings, or from the capital market. Actually, what would happen would be that the Operating Discount would be smaller than it would otherwise be, and consequently a certain amount of the production would be privately produced, but would enter the Surplus Economy, the firm getting credit on its capital account from the Surplus for the amount of such goods.

There are fairly good reasons for believing that the amplitude of business cycles under the plan we are examining would be greatly lessened; if this should prove not to be the case, the mechanism just described would be a powerful agency in equalizing real investment over the period of a business cycle. Under it, capital investment would proceed at a fairly even rate, and would not be subject to the wide swings which at present exist. The total income of con-

sumers would also not tend to vary with the business cycle, except in the case of those individuals, where income was chiefly or wholly derived from dividends, or in the case of entrepreneurs. Even in the latter case, certain classes, such as professional men, could be assured of a relatively stable income, whatever the state of the business cycle. We can consequently predict that the purchase of consumers' durable goods, houses, automobiles, etc., would proceed at a fairly even rate.

Returning for a moment to the subject of what might be called trading between the economies, we would have a case similar in mechanism to Bond Memoranda, but in the opposite sense, where, for one reason or another, the private operator was put to extra expense from the presence of the Surplus Economy. Extra bookkeeping expenses would be a case in point. In such cases the extra expense would be taken care of simply by a Satisfaction. This would make the actual Operating Discount larger than the apparent Operating Discount. Surplus produced goods would be sold for money, or more exactly, the extra labor would be paid for by the Surplus.

As has been seen, the magnitude of the total economy would be determined by the extent to which the Consumers' Distribution was increased. This Distribution would determine total consumer purchasing power in the Surplus Economy but would not affect total purchasing power in the Surplus Economy but would not affect total purchasing power in the private economy. The extent of Distribution in the Industrial Distributions would, with their allocations, permit planning of the course of technological change. But as regards each control, it would not affect the right or the opportunity of the private producer to produce to any amount or in any way which appeared to be most profitable to him. Prices would be wholly determined by the private operator; total production would be determined by total manpower; together with the existing level of technological skill and productive facilities. Increase in the Industrial Distributions, at the expense of the Consumers' Distribution, would decrease the latter for the moment but would ultimately increase it; the rate of such increase could be adjusted to the situation at the moment. During the period in which unemployment was being taken up, the Industrial Distributions would only be made large enough to keep the facilities for production of producers' goods reasonably busy. When unemployment was at an end, larger Industrial Distributions would be made, as increase in the average standard of living from then on could only be made by technological improvement.

The problem of foreign trade under such a system would have two aspects, according as the economy of a given country using the system was, like our own, a relatively balanced one, from a physical point of view, or whether a large amount of inport and export trade was a necessity. The former problem is a relatively simple one. Its chief problem is the disposition of products of the country produced to a point of true national excess—that is, to such a degree that they could not be entirely disposed of within the country at any price. In this country cotton is such a commodity. In Brazil coffee is another, a special mechanism, consisting of a quota of a new type would be a way of handling this situation. The physical production of

such a commodity would not be limited, as at present is done. But the amount which could be sold for use in domestic consumption would be limited. The cotton produced by a given producer above his quota could only be sold for export. Whatever a cotton house wished to buy for its own interest for export it could do. The Surplus would buy the rest. If the producer was an individual, the cotton would be bought by the cotton house for money, as regards its share, for Surplus Credits, as regards the share actually bought by the Surplus. Such a payment, as regards the accounting for the Operating Discount of the cotton firm, would be on exactly the same basis as its salary and wage payments. In calculating the Service Revenue of the firm, only its purchase of goods and services *from other firms* would be subtracted from the value of goods and services sold, to obtain the Service Revenue of the firm. Consequently, in this particular case, the Service Revenue would include the entire value of the cotton sold, both for domestic and for foreign use. As in the case of other producers, the firm would make out Service Memoranda. As regards the cotton going into domestic trade the buyers would assume a portion of this obligation by the Goods Memoranda which they offered as part of the purchase price. As regards the rest of the amount of Service Memoranda executed by the firm, the Surplus would be ready to issue a Satisfaction for the entire amount when paid a certain proportion of the amount in money by the firm. A numerical example worked out, on what might be considered to be practical assumptions for the difference between the foreign price for cotton and the domestic price, shows of course a loss to the Surplus, which would have to come out of the total of Distributions. It would be, at most, a few tenths of a percent of the total amount of such Distributions when the system was in full blast.

We have thus a general method of disposing of national Surpluses of this type, whenever the political situation is such that export may actually be made. Any foreign price *can* be met. The question as to whether it *should* be met in this way is another story. In the case of cotton, we have today a large population, which, economically, practically *must* raise cotton. From the national point of view, it would be much better that the Surplus accept a moderate loss in this way, than that this population be unemployed. Under our plan, the appetite and ability to pay, for a more costly diet, would be much increased. We could expect that many cotton growers would turn to fruits and fresh vegetables from this reason. In general we could look to see this mechanism tend to decrease the production of any commodity, whether agricultural or manufactured, which had to be largely exported at an insufficient price from the domestic point of view. Profits in the production of those goods which could be used internally would be enough to diminish the production of goods produced to a national excess, and which could not be sold in the foreign market for a price which would satisfy the domestic producer.

The picture is somewhat different in the case of an unbalanced economy, in which a considerable amount of imports must occur, to supply raw materials and food for the people; in the case of a country like Argentina, a similar need will exist for manufactured goods. In each case, goods to national excess *must* be exported, goods which are in national deficiency *must* be imported, whatever the foreign prices.

If, however, the foreign price is enough higher than the domestic price to bear the costs of carriage, no problem will exist. But, if the reverse is the case, whether naturally or by reason of tariffs, the use of the Surplus Economy would greatly facilitate the securing of the necessary foreign trade.

Taking first the goods to be exported. As in the exporters' hands for export, it will usually have been acquired, partly for money and partly for Memoranda. If now a low foreign price must be met, the Surplus would agree to a payment of the Memoranda setup, at any necessary discount. If, for example, a given stock had been acquired, 50 percent for money and 50 percent for Memoranda, agreement of the Surplus to issue a Satisfaction for the amount of the Memorandum account for a payment of 50 percent of its amount in money, would permit the exporter to cut his price to 75 percent of what he would otherwise have to charge in the foreign market. Similarly in the case of a necessary import, the Surplus might furnish a certain proportion of the foreign exchange necessary to obtain the goods, but require the importer to furnish a Memorandum of less amount than the amount nominally equal to the amount of foreign exchange furnished. Both these procedures would of course require the expenditure of money by the Surplus. This money would have to be obtained from the sums used to pay down Memorandum accounts of retailers. There would consequently be less of such funds for the redemption of Surplus Credits. To this extent it would be necessary to decrease the amount of the various Distributions, mainly that of the Consumers' Distribution.

If it were considered that the Surplus Economy should not bear the entire weight of the unfavorable foreign trade conditions which we have supposed to exist, the entire economy could be caused to assume the burden by measures similar to those used by Germany, with a variable foreign exchange ratio. Or a combination of the two systems would be possible and perhaps desirable.

An important consideration to be kept in mind is that under such a system any possible value to a country of a protective tariff would be at an end, except from an autarchic standpoint. It would be clearly recognized, that if the physical production of a country can be maintained, all goods which can be imported will raise the average standard of living while all goods which must be exported, if not produced to national excess, will decrease it. Today it is distinctly possible for imports of a good to decrease the domestic production of that good, and for the total volume of imports to decrease the total volume of domestic production. Under our system the latter would never be possible, though the former might be. Such decrease of the domestic production of a given commodity because the foreign costs of production were lower, would from the pure economic point of view be advantageous, although considerations of national defense might make it unadvisable. Wherever the latter intervened, it would be possible for the Surplus to use precisely the same mechanism which we have just described in the case of the necessity of a given export or import, to equalize the situation between the domestic and the foreign producer. That is, Memoranda set up in the production of the good which it was deemed necessary to produce at home for reasons of national safety would be discounted to a certain degree by the Surplus at the cost of the Distributions. This would enable such

goods to be sold on the domestic market at a lower price than otherwise would be the case. The advantage to the consumers of the low price for the good, rendered possible by the low foreign costs would not be lost.

Appropriations would be made for the support of the various Government bodies as today and in dollars. An individual taxpayer would be able to elect what proportion of his taxes he wished to pay in the private economy, that is in money, and what proportion in Surplus Credits. He would demand the return of Discount Stamps to the extent to which he desired to pay in the latter. The corporate taxpayer could Discount its taxes to the extent of its Operating Discount. Practically this would be accomplished by permitting the payment of taxes from Service Revenue, under precisely the same conditions under which wages were paid. That is, Surplus Credits would be issued to taxing bodies, as to individuals. Like others rendering services, taxing bodies would be required to buy any stamps required of them for their amount in money; such a purchase would set up an equivalent Surplus Credit. A taxing body, purchasing goods and services, would pay for them as would an individual; if the purchase was from a retail establishment, stamps would be demanded to a proportion demanded by the proportion which the income of the taxing body was in Surplus Credits; if buying from a wholesaler, it could pay in any desired proportion in Goods Memoranda. Such Memoranda would be extinguished by direct diminution of its Surplus Credits to the necessary amount. It would pay its wages in money and in Surplus Credits, according to its income in the two economies, setting up the necessary Service Memoranda to secure the latter.

Under such a system there would be great advantages to certain businesses, particularly those with a large productive investment such as the railroads or the public utilities. At present such enterprises have to pay taxes on their total property; when they are operating under considerably less than full capacity this may become very onerous. In the case of the railroads, at all times the amount of taxes paid usually exceeds the amount of dividends paid. Under our system, if the private share of the Service Revenue (the "net operating revenue," in railroad accounting terms) of a railroad was 75 percent its present tax bill might be reduced 25 percent or an amount equal to a percent or two on the capital stock.

It is believed that the factors which tend to cause business cycles would be largely or wholly neutralized, as regards their periodic character, if our system went into effect. As above noted, capital investment, the total income of consumers, the general business confidence, and other characteristics of our present business system, which tend to vary with the business cycle, would no longer have much of their periodic variation left. Earnings of capital, while not so large, probably, as in the late twenties, would be larger than in 1936–37. They would probably be relatively stable, and savings in money, which would tend to go into investment, would accumulate more regularly. Stocks would accordingly probably not tend to rise or fall abruptly.

It is thought, therefore, that if the money purchasing power for consumers' goods was insufficient to purchase the amount of such goods produced privately, as is the case today at the time of a business recession, the proportion of the private economy would slowly fall, with

resulting more rapid fall in the return to capital, until a proper balance was obtained, when conditions would become stable at this point. In terms of physical analysis of vibrating systems, the business cycle might become nearly or entirely "critically damped." If later on, for example, conditions changed through a general rise in wages, the proportion of the private economy would increase to a new balance.

While the physical production, fantastically large, according to our present ideas, would take place to a considerable degree in the Surplus Economy, the production under private auspices would probably become stabilized at some figure, larger than our largest previous production, and would increase from there with increase in technological equipment. The private portion of the production would have the entire benefit, as far as its proportion was concerned, of the economies of production made possible by the high and stabilized total production. The earnings per dollar of invested capital, as noted, would probably be lower than the average of 1929. The total income of capital would be much larger, it is believed. Large incomes would be just as possible as today, though perhaps not quite so common as in 1929. Low incomes would probably at least be doubled, and medium incomes would be much larger on the average. Prices would seem destined to be perhaps a little lower than in 1929, on the average, and unquestionably would be far more stable. Monopolistic control of them would be distinctly less profitable, owing to certain powerful defenses against monopoly, inherent in the two component economy.

At this point reference should be made to the work of Graham.[9] It is matter for marvel that Graham's book, one of the most pregnant of our time, has received so little attention by economists that it was possible for the present paper to be substantially in its present form, before the writer knew of the great resemblance between the direction, in which his thought had gone, and Graham's suggestions. In fact, about 2 years ago, his ideas were practically identical with those which Graham had advanced 6 years previously. It is a matter of somewhat melancholy interest to wonder to just what extent the present condition of the world might have been improved had the democracies availed themselves of this instrument ready to their hands, with which to combat the superior productive power of the German economy. At least, it would seem men might have actively discussed the proposals instead of relegating them to the half contemptuous silence which they so little deserved.

Graham's proposals then, are to consider the basis of the present plan. Several differences, believed to be important, differentiate them from the mechanisms advocated herein. Among the more important of these are the following:

(1) Our proposals are not intended to be temporary, or of emergency nature, but to be permanent additions to the economic structure. A two component economy has an additional degree of freedom to any one component economy. This renders possible various adjustments to a situation which cannot be made in a one component economy. For example, the additional bargaining dimension, offered by the pro-

[9] The Abolition of Unemployment. Frank D. Graham. Princeton University Press, Princeton, N. J., 1932.

portion which the amount of the Memorandum would bear to the total purchase price, permits prices to be maintained at profitable levels without the seriously deleterious results seen today when prices are held similarly fixed.

(2) The Consumers' Distribution offers a method of quotizing consumer purchasing power, and consequently of regulating the total volume of the economy, which seems to be much more simple and direct than that suggested by Graham.

(3) It also offers so powerful a method of energizing the mechanism in a purely economic way that every economic unit would be forced to enter the system, the compulsions being, however, purely economic in nature.

(4) No reward is consequently necessarily offered to capital for the use of the capital facilities used by the second economy. This makes our system automatically able to regulate the proper proportion of the total income of the society paid to capital. If the return to consumers is too small, and that of capital too large, to permit a stable situation, whether from too high prices or too low wages, or both, the private portion of the economy will shrink in proportion to the total economy until the return to capital is sufficiently diminished to make the situation stable.

(5) All men are on an equal basis as regards their relationship to the two economies. All will be partially employed in each.

(6) The Surplus, in contrast to Graham's Emergency Employment Corporation, has no more direct a concern in individual transactions than does the Treasury today. All goods are privately owned, the Surplus only preserving a lien in money in the form of the Memorandum accounts of each business.

(7) The Memorandum system, a kind of debit bank currency as opposed to the present credit bank currency, is apparently new. It gives an automatic control in various directions having the same logical bases as our present bank currency, and having the same convenience, safety, precision, and flexibility.

(8) Discount Stamps are apparently a new device. They permit division of the purchasing power between the two economies while only a single currency is used. They have the further important property, in conjunction with the Memorandum system, that the proportion of ownership in a given good, in the two economies, is determined only at the instant of sale. In the case of sale to ultimate consumers, the proportion of ownership of all goods sold, as regards totals, is determined by the proportion of income in the two economies available to buy consumers' goods. The same is also true of the purchasing power for capital goods in the Memorandum system.

(9) Complete qualitative control of the *total* character of the producing facilities is afforded by the Industrial Distributions. This control, as in the case of the control of total volume, mentioned above, is effected without the

least invasion of the present freedoms of a free enterprise capitalistic society.

The extent to which acknowledgment should be made to the theories of "social credit," as advanced by Maj. C. H. Douglas, is considerably more difficult to determine. Certain superficial similarities exist between some of his ideas and proposals and those in this paper. His statement of his views is so unsystematic, that one of his own followers has felt the necessity of assembling his important pronouncements into an ordered arrangement.[10] Even when so ordered, his terminology appears to be so vague that it is very difficult to know what is meant. By "money" he often appears to mean "income," for example, His "A+B Theorem" is incorrect as he states it, but has a substratum of truth if "B Expenditures" are held to mean not what he states, but a certain proportion of the return to capital which is either held as reserves by corporations or hoarded in other ways. In other words, the "liquidity-preference" of Keynes is the essential magnitude. If so defined, he is correct in saying that the defect in consumer purchasing power should be adjusted in some way.

It is not necessary to consider his theories of banking and banking credits, as they appear to suffer from all the disadvantages above noted and some others. They emphatically do not prove his points or any of ours. But it is felt that with all these aspects which can be criticized, his work has elements of suggestion which make it of very real value in the present discussion, although here again the ideas here advanced were arrived at in complete independence of his work.

EXPECTED RESULTS

It is believed that the main results of the operation of such a system would be—

(1) The production of wealth, after a reasonable period of operation should be of the order of 150 percent of the best previous production. The average income of the lower income groups should be more than doubled, on an annual basis.

(2) All men willing and able to labor should have reasonable assurance of a steady job throughout the year, and in all localities.

(3) Nearly all difficulties of foreign trade, not attributable to national political rivalries, would be greatly reduced.

(4) Taxes would be a greatly reduced part of the burden of industry, as they would proportionately be paid in the Surplus Economy.

(5) It is believed that business cycles would largely disappear. If they persisted, practically the only way in which they would affect the total economy would be that the return to capital would vary cyclically with them. In particular the total production of neither consumers' goods nor capital goods would vary with them.

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[10] The Douglas Manual, being a recension of passages from the works of Maj. C. H. Douglas outlining Social Credit. Philip Mairet. Coward McCann, New York; no date.

(6) An entirely new flexibility, especially needed where certain present rigidities exist, notably of prices and wages, would appear in the economic fabric, and would greatly facilitate operation of the whole economy, whether private or secondary.

(7) An important magnitude of our present economy, the proper division of the national income between those who will predominantly hoard or invest it, and those who will predominantly expend it for consumers' goods, would be automatically regulated by the change in the proportion between the two economies. If the portion going to the first category was too large, the private economy would shrink and the secondary economy expand, and vice versa. At present this magnitude is only regulated by the costly process of a depression.

(8) As far as can be seen no economic class would fail to benefit from the introduction of the system, although the wage-earning class would benefit most, as regards standard of living, constancy of employment, and economic security.

SUMMARY

A two-component economy, such as is seen in the German, or any warlike economy, has a secondary economy, in addition to the private economy, capable of absorbing all Surpluses. Such an economy is capable of operating continuously at the highest limits of production which the available manpower and technology permit.

If this procedure is adapted to conquering unemployment and raising the standard of living in a democratic and peaceful society, it is necessary that the secondary economy, in supplying the goods which it produces to consumers, shall not compete with the private economy. It is also necessary that the purchasing power in the secondary economy shall be so regulated that it is always sufficient to acquire the goods produced in that economy.

There is proposed a Government-owned corporation, called "The Surplus," which will enter into a silent partership with any economic unit, paying certain direct costs, such as salaries, wages, taxes, and depreciation, in a continuously variable proportion, and acquiring thereby a corresponding lien of the Service Revenue[11] of the firm. These liens, carrying no interest and without maturity, are called Memoranda; they are assumed by the purchasers of the goods or services produced by the firm as part of the purchase price, and become thereby a sort of bank currency, having a debit, rather than a credit basis. In this way transactions in them, while parallel with the money transactions involving the same goods, may be kept entirely separate from the money transactions. The proportion of salaries and wages paid by the Surplus, as part of its obligation as a silent partner, is paid in a form of credit called a Surplus Credit, which can only be held by ultimate consumers, individuals, and taxing bodies, etc., not by producers. All purchases by consumers would be for money, as now, but holders of Surplus Credits could obtain the return of money paid for goods and services to the extent of their Surplus Credits, the Credits being accordingly deb-

[11] See p. 215, note 7.

ited. Sellers to consumers would pay off their Memoranda by money payments to the Surplus, receiving an equivalent amount in Discount Stamps. They would turn over the latter to their customers for a small fee, and their customers would present the Stamps to the Surplus in the process of realizing on their Surplus Credits. Memoranda would accordingly reciprocally extinguish, and be extinguished by, Surplus Credits, without ultimate change in money balances. Consumers would accordingly purchase to a variable degree, dependent on their income, in the secondary economy.

Purchasing power in the secondary economy in Surplus Credits would be equated to the amount of Memoranda set up, by Distributions of additional Surplus Credits to individuals, and of capital goods to producers, a long term lien remaining on such goods unless extinguished by the producer receiving the goods. This lien would affect the extent of partnership with the Surplus, where complete utilization of the facilities was necessary, but not otherwise.

Total volume of the secondary economy would be controlled by the volume of the Distribution to consumers; this Distribution would be gradually increased until unemployment was reduced to a satisfactory amount. The character of the total productive equipment would be determined by the character and amount of the Distributions to producers, which would be on an award basis.

The Distribution to consumers would offer a method of energizing the whole procedure, so powerful in nature as to permit of the compulsions being exclusively economic. They would be sufficient to force all economic units into the system. However, such compulsions would be exclusively economic, and in the ordinary acceptation of the terms, all present freedoms would be fully maintained.

NOTE ON THE APPLICATION OF THESE PROCEDURES TO A WARLIKE ECONOMY

It may at first be thought that since a warlike economy, under which, willy nilly, we must now live for an undetermined period, has in it inherently the property of securing full physical production, there is, or will be, no need to consider such a system as we have described, until the world has again returned to some measure of sanity. To an extent this is true. It is true, in that the full benefits of our system cannot be obtained, when a very large part of the physical production of the country must go to the purposes of war, and not to improving the standard of living of all men. But it is not true that certain of the mechanisms which have been described would not be of very great value in various ways in initiating and carrying on the effort at preparedness for attack.

In the first place, all such effort at preparedness would be much easier if the peacetime economy were at full production. If such were the case we would have many more skilled workers than we have now. We would have much more productive equipment to keep them busy. To be sure some of this equipment would not be useful in the prosecution of a war or in preparing for such an eventuality. But much of it would be just as useful for the production of munitions and other equipment of armies, as though it had been specifically provided for that purpose.

The army behind the lines also is just as much in need of organization, of providing superintendents and foremen, as the army on the lines is in need of captains and noncoms. If we have 10,000,000 unemployed, many unskilled, many rusty, most, more or less undernourished, disheartened, with diminished morale, and as regards many of them with a very justified distrust in democratic institutions, any means by which they can be rapidly brought into the industrial organization, fed, clothed, brought out of their despondency and distrust, will make the physical effort of the country to defend itself, if and when that shall become necessary, at least 20 percent more effective. And we need desperately that 20 percent. A longer jump can be made from a run than from a walk or a standing start.

Technically, it would be proper to carry on nearly all of the war industries in the Surplus Economy if we had such an economy. In this way, the national debt from the war effort could be minimized. Indeed it would be possible to organize a two-component economy in such a way that there would be no addition to the national debt of any consequence. The methods by which this would be done would be similar to those briefly outlined for the facilitation of foreign trade, plus a change in the Consumers' Distribution. For the period of the war, the entire Consumers' Distribution, which we have stated would probably be of the order of from 15 to 20 billion a year, when the system was in full operation, would be placed to the credit of the national government. In addition, such other credits would be placed at the disposal of the government in the Surplus Economy, as would make it able substantially to buy what it needed with these credits alone.

Heavy taxation in the private economy would contract the consumption of this portion of the economy to any desired amount, although the amount of contraction caused by this taxation would not be as great as might at first thought be expected. Indeed, the private economy would itself become a two-component economy of the usual warlike type, and would itself expand as a whole, at the expense of the Surplus Economy, the final result being a total economy nearly all technically of the private type, but of the private warlike type, that is itself two-component. This expansion would be far easier than would be the case where the expansion was from a relatively inactive total economy such as our present one.

The matter is naturally in not nearly so favorable a position, if we should have to start today, both to set up the Surplus Economy, and to erect thereon a warlike economy. Since, however, the Surplus Economy is concerned simply with an increase in the present economy, the procedure would be more easy from a technical point of view. It might give a good many headaches to accountants and the staffs of banks, but the engineer and the industrial worker would find little to puzzle him. The vast army of youth seeking employment would be more rapidly trained, and the vaster army of workers, once skilled, but for long years unable to practice their skills, would again become competent. Suppose reemployment in this way to be but 6 months in advance of the reemployment due to war industries. This 6 months would be an immense gain.

PART VII

THE CLEVELAND PLAN

Submitted by

SAM D. SCHEARER

THE CLEVELAND PLAN

[Presented as a fair means of providing for "Security from Want" for all citizens]

SUBMITTED BY SAM D. SCHEARER

Time and again in every known language it has been said that the basic human desire is for "Security from Want."

Considering the tremendous resources and means of production available in the United States, no citizen should be deprived of ample food, clothing, and shelter.

It should be possible for all able-bodied citizens with but a reasonable expenditure of time and energy to provide the essentials of life for themselves as well as for those who are unable to work.

Any form of restriction placed upon the free movement and exchange of foodstuffs and commodities defeats the ideal life for all people.

It, accordingly, reasons logically that the fundamental plan or program to benefit alike all citizens must provide—

First. For the most economical distribution of such portion of the Nation's wealth as is represented by food, clothing, fuel, and shelter.

Second. To make available at low cost in all homes modern lighting, heating, plumbing, and refrigeration.

Third. To make available to every family through inexpensive radio reception the educational as well as entertaining features presented through this medium.

Fourth. It should provide that any family with but a small outlay could enjoy the conveniences of a telephone in the home, also make use generally of other forms of rapid communication.

Fifth. It should aid in placing within reach of every family the privilege to own and operate a modern safety equipped automobile.

It reasons that only through a move in these directions will the standard of living be raised to the plane which should prevail in this land of plenty, and provisions made for the greatest possible health, happiness, and a more sincere feeling of good will among all citizens.

With the foregoing ideals in mind, would urge that you investigate thoroughly, then consider seriously, the presentation to the public by every possible means at your command, the advantages of the application nationally to all forms of transportation of what might be termed the Cleveland Plan.

You will find there was set up in Cleveland twenty-five (25) years ago a plan under which the Cleveland Railway Co. has since operated successfully.

The Tayler grant or franchise in question was the consummation of an idea of the late Mayor Tom L. Johnson, developed by the Honorable Newton D. Baker, then city solicitor, approved by the late Judge Tayler of the Federal court in the Cleveland district, and was gratefully accepted by the people.

Under this plan excellent street railway service is being rendered the public at "service at cost" rates, equitable remuneration for both executives and employees; also an uninterrupted fixed return quarterly to the stockholders is provided.

The amount of the stock outstanding represents the approximate physical value of the property used in this service.

The present precarious financial position of the majority of transportation companies, notwithstanding liberal legislation devised from time to time, also the free use of the taxpayers' money through the Reconstruction Finance Corporation, is such that drastic action seems necessary to protect the interests of the public as well as holders of the various securities issued by these corporations.

With this thought in mind, as well as the many other economic advantages to be derived, it seems logical that the entire transportation facilities of the Nation should be brought to operate under a grant similar to the Tayler grant, which is not an experiment but has proved its worth for the past twenty-five (25) years.

A non-partisan movement should be started to acquaint the public with the many advantages they will derive through a co-ordination of all steam and electric railways, highway motor and bus lines, airway lines, pipe lines, railway express, Pullman, refrigerator and other special rolling stock, all freight and passenger carriers operating on canals, rivers, lakes and coastwise, in fact, every form of transportation including local bus, taxi, subway, elevated roads and surface street railways.

A Nation-wide distribution of facts concerning the Cleveland Plan would bring about a general discussion of its advantages and disadvantages, all of which should in time result in the forming of public opinion to a point where every political candidate for all legislative bodies and other governing offices would sense the will of the people and declare for the fundamentals of the Cleveland Plan; also work diligently for the enactment in an orderly form such necessary National and State legislation as would provide for the adoption of the plan.

After proper provision has been made by law, the procedure would be similar to that worked out in Cleveland years ago.

Each property in question would be appraised separately, the appraisal to be based only on the approximate physical value, no consideration to be given set-up values of grants or franchises.

Basic data for appraisal purposes are already available in the files of all State public utilities commissions, in the offices of auditor's of all States, counties and cities, also very definite information must be available in the records of the Interstate Commerce Commission in Washington, D. C.

Appeals or questions raised by holders of equities in these properties for revision of the appraised values would be submitted to the supreme court in the respective States, and if necessary their findings would be reviewed and final decision made by the United States Supreme Court.

Upon determination of the fiscal value of each property the holders of the various types of securities outstanding (no treasury stock to be considered in the exchange) would be entitled to receive their pro-rata share of the common stock (with a guaranteed fixed interest rate) of the National Transportation Co.

The issue of common stock of the National Transportation Co. at time of exchange would represent the aggregate value of all existing properties as determined by the courts.

From time to time additional common stock would be issued, only, however, in the amount of actual additional capital investment made to extend services and to improve or replace obsolete equipment.

Provision would be made for research and experimental work to cover development recommendation and adoption of every device or facility which would provide for the public the safest and best possible service.

To provide necessary working capital, also funds for extension and improvement of services, short term bond issues would be made at a pre-determined fixed annual rate of interest, this rate to be somewhat lower than the fixed return on common stock (i. e., presuming return on common stock was set at 6 percent), then a rate of 4 or 5 percent might be considered fair on the bonds.

Such portion of these bonds issued to provide for actual physical property or capital investment would at date of maturity be exchanged for equal amount (based on par values) of common stock of the company which would then provide that practically at all times the amount of common stock outstanding would represent physical value of all the properties.

The tariff rates on all commodities as well as on passenger haul would be set up similar to schedule shown in the Tayler grant to the Cleveland Railway Co. (i. e., graduated from lowest rate of 3 cents per haul per passenger to 10 cents per haul per passenger, the highest rate provided).

The commodity and passenger rates on all forms of national transportation would in this form be clearly understood by the public.

The particular set of rates applicable for any given period of time would be determined as in the Cleveland Railway Co.'s grant by the amount or balance shown in the control fund.

This principle is brought out clearly in the Tayler grant under which the Cleveland Railway Co. has operated for 25 years.

The people as a whole would eventually realize that the greater use they make of all transportation facilities the lower these costs would be from time to time.

The entire country would be divided into districts or zones (i. e., similar to present parcel-post system) and tariffs set up would provide for rates per mile on each classification for carload, ton and hundredweight within a given zone, also show what additional percentage of the zone rate must be added according to the number of zones entered or crossed.

A similar prepared schedule or tariff covering passenger rates per mile or within a given zone or any number of zones would also show the additional rate or charge made for use of space in Pullman cars, airplanes, staterooms on boats, and all other special accommodations provided for convenience and comfort of travelers.

Continuing this same line of thought or procedure all public utilities might consistently be financed and operated along practically the same lines.

This would create another national service unit consisting of all electric producing and distributing companies embracing municipal

plants, also such projects as are now being financed or developed by State or national governments.

Another national service unit would include all concerns controlling natural gas developments and distribution as well as manufacturers and distributors of artificial gas. There would also be brought into this group all municipal gas plants and distributing units.

Another national service unit would bring together all private and municipal water pumping stations, reservoirs, dams, irrigation projects and their distributing equipments, also such water supply and distribution as is now operated or is in course of construction by State or national governments.

Following further the thought of service at low cost to the public of essentials, the same plan would be carried out through combining and operating all telegraph, telephone, wireless, and cable facilities as a national service unit to make available the use of these services to millions of people now denied this privilege due to the prevailing high rates.

The employees of all national service units should wherever possible be classified and selected under civil service rules and regulations (similar to Postal Service workers) to provide for the developing or building up of groups of highly trained employees who would render a most dependable service to the public unhampered as little as possible by politics or trade union encumberances.

The supervision of all public service units also to insure ample protection for the stockholders as well as the public being served would be placed in the hands of a State commission of five or nine members same to be elected by direct vote of the people in given districts in each State.

These selections to be made at each regular State election every 2 years, of two or more commissioners elected alternately to serve for a period of 6 years subject to provision of recall or removal (through direct vote of the people) from the commission due to incompetency or for other good and sufficient cause.

The National Government would be represented by a similar commission elected by a direct vote of the people in given districts on each 4-year national election day.

The National Commission would replace the present (now appointive) Interstate Commerce Commission.

Protests or complaints regarding conduct or improper action of State Commissioners would be filed with the National Commissioners who would decide if charges warranted a vote on recall by the people in any given State district, and if so decided would be empowered to have this question placed on ballot at the next following State election.

Similar protest against a National Commissioner would be heard and passed upon by the cabinet at which meeting the Secretary of Public Service would preside, and if charges were considered sufficiently serious they would be empowered to place this question of recall on ballot for action by voters at any given national election. There would be no restriction regarding the reelection of any commissioner upon expiration of a given elected term.

The nomination or placing on ballot of names of applicants for office of commissioner, both State and National, would be by petition signed by a reasonable percentage of the legal voters residing in the district

or section of State or Nation in which the commissioner would be selected.

All applicants would be required to show at hand of each petition, a halftone reproduction of a recent photograph, name, address, also a statement as to vocation, such as engineer, executive, or other line of endeavor which might qualify them for this important position, also show a brief record of actual service or business experience. All of this would provide information for the signers of petitions to consider and aid them in the forming of a reasonably fair opinion as to the type of person they were petitioned to nominate.

The nomination for National Commissioners would be made along identical lines provided for nomination of State Commissioners.

There would be a cabinet member known as Secretary of Public Service, appointed by the President, who would preside at all meetings of the National Commission and at all joint meetings of the State and National Commissioners, to be held at stated regular periods to discuss problems of service and to exchange ideas relative to improvement of same.

All meetings of commissions would be open to the public and records of proceedings be available to public inspection at all times.

APPENDIX

Limitation of space does not permit publishing in full the great volume of material received by the committee from individuals and organizations throughout the United States. A listing of those who wrote letters or submitted plans to the committee, relating to the general subject of recovery and how it might be achieved, is given below:

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